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Japanese economy
Investors head
for the exits

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Path to power

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Secret policeman
to special envoy

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Better, cheaper

Telecoms in
business

Survey, Section III

World Business Newspaper

Mexico returns
to bond markets
after peso crisis



Mexico is poised to return its bonds to the international bond market only six months after a devaluation triggered a severe financial crisis.

Finance minister, Guillermo Ortiz (left), said

Bancomer, a state-owned development bank, will

today issue Mexico's first two-year floating rate note on the international

markets for between \$200m and \$300m, the first

public debt issue since last December. Page 14

Push for UK poll on single currency: UK cabinet members are pushing for a referendum on the British currency's membership of a single European currency, to end the row on European Union policy which is dividing the government. Page 8

Sprint considers cellular sale: US communications company, Sprint, is considering selling its conventional cellular business following its success in auctions for personal communications spectrum wireless licences in March. Page 15

Sarajevo offensive expected: Bosnia's foreign minister fuelled expectations of an imminent military offensive to break the Serb encirclement of Sarajevo by saying the city could not endure another winter under siege. Page 2

New date for car trade talks: The US and Japan agreed to resume talks on their car trade dispute, reducing the risk of the row disrupting the Group of Seven industrialised nations' summit in Halifax, Nova Scotia. Page 6

Russia clears way for oil investment: The Russian parliament approved a law which could pave the way for tens of billions of dollars of western investment in Russia's oil industry. Page 14

Boeing wins \$3.1bn Asian orders: Four Asian airlines have promised orders worth \$3.1bn for 31 Boeing 777-300s, lengthened versions of the Boeing 777 aircraft. Boeing said. Page 4

Japanese recession warning: Bank of Japan governor, Yasuo Matsushita, repeated concerns that the economy might fall back into recession saying an improvement shown in business conditions was confined to manufacturing and had not reached service industries. Page 6

NYSE plans trading change: The New York Stock Exchange is considering creating a facility for trading in the shares of non-US companies, enabling investors to buy shares of foreign companies in their home currency. Page 15

Development aid at 20-year low: Overseas development aid from the world's richest countries fell by \$5m in 1993, and now represents a smaller proportion of wealthy nations' GNP than at any time in the last 20 years, according to an independent report. Page 7

HK Telecom share sale raises \$122m: The Chinese government's main domestic and international investment agency sold 61m shares in Hong Kong Telecom, raising some HK\$45.5m (\$US12.3m). Page 19

Spain investigates phone-tapping: Spain's attorney-general has ordered an investigation into unauthorised phone-tapping by the Cesid intelligence service, reported to have recorded conversations by King Juan Carlos and politicians, journalists and businessmen. Page 2

Pakistan moves away from IMF plan: The Pakistani government unveiled a budget which appeared to distance the country from a structural adjustment programme being undertaken with the International Monetary Fund. Page 6

Mitsubishi Bank revealed that loans where interest rates had been cut due to the borrowers' financial problems, declined 7.3 per cent during the year to March to Y495.4bn (\$5.9bn). Page 19

Canadian oil sell-off to raise \$1.58bn: The Canadian government hopes to raise about C\$2.2bn (\$US1.58bn) from the privatisation of its 70 per cent of Petro-Canada, the country's second biggest integrated oil company. Page 18

Islamic banks to fund Saudi deal: Islamic banks are expected to play a prominent role in financing Saudi Arabia's purchase of \$60bn of new aircraft over the next 10 years. Page 7

Bangkok pier accident kills 20: At least 20 people were killed and many others were believed drowned after a floating pier packed with commuters capsized on Bangkok's Chao Phraya river. Page 7

UK Stock Market Indices

US Lunchtime Rates

Other Rates

North Sea Oil (Averages)

Austria Saks Great Brit Dated Males London Gold Date CPT1000

Belgium Dm/250 Hong Kong HK\$100 Mexico Peso 2000/2000

Belgium Bf70 Hungary Ft800 Italy Ft 425 Singapore S\$1000

Belgium Lrl1000 Ireland Irls 1000 Nederlands Pst/1000

Cyprus Cst170 India Rupees 1000 Nkr100 S. Africa R1200 Spain Pesetas

Czech Rep CZK550 Italy Ls1000 Pakistan Rs2000 Switz SF1000

Egypt Esd100 Japan Y100 Philippines Peso 5000 Syr 2500000

Finland FMF50 Kuwait Ft800 Portugal (cont'd) Tunisia Dmt 5000

France Ft1000 Lebanon US\$1000 Turkey Ls500000 Uae Dirhams

Germany Dm/250 Lux Ur700

Suez management attacked by main shareholders

By Andrew Jack in Paris

management's moves to secure extra powers to issue shares which could be used to buy stakes in other companies.

The action was designed to stop a potentially large investment in Pinault Printemps Redoute, the retail group with which Suez has been in discussions, as well as to express the shareholders' concern about what they see as a lack of focus in Suez's commercial strategy.

The attack follows several days of intensifying criticism of Suez's performance and speculation over whether it was seeking a

"white knight" in the form of Pinault to defend itself from a rumoured takeover bid by UAP and by Banque Nationale de Paris, another large shareholder which has been increasing its stake in Suez in recent months.

To the applause of many of the several hundred shareholders at the meeting, Mr Jacques Friedmann, chairman of UAP, which holds 6.8 per cent of Suez's shares, criticised the way Suez had taken decisions without consulting the board.

His views were supported by Mr Jean-Louis Beffa, chairman of Saint Gobain, and Mr Philippe Jaffre, chairman of Elf Aquitaine, who said that Suez lacks the definition and application of a clear strategy.

Such public acrimony is rare among French business leaders who usually prefer to settle their disputes in private. As they are all represented on the Suez board, Elf Aquitaine and Saint Gobain could have voiced their criticisms more discreetly.

The three chairmen's comments followed a presentation by Mr Gérard Worms, chairman of Suez, who confirmed recent spec-

ulation that he had been in discussions with Mr François Pinault, chairman of Pinault Printemps Redoute.

While criticising as "regrettable" the fact that the discussions had been reported in the press, he defended his talks and also confirmed that he talked with the chairman of UAP and BNP about greater collaboration in the future.

Mr Worms also suggested for the first time that Suez might seek an external partner to help it fund necessary expansion for Indosuez, its banking operation,

if it could not find the resources internally. He said a decision was likely within the next few weeks.

Banque Nationale de Paris has long believed to be interested in acquiring Indosuez, which would strengthen its own investment banking and international operations at a time when the opportunity to improve its profitability is limited.

Mr Worms also had to defend himself against calls for his resignation, and over demands for greater transparency in directors' remuneration and personal shareholdings.

Japan to raise issue at G7 summit ■ Australia and NZ freeze defence co-operation

France will hold series of N-tests in Pacific

By David Buchan in Paris

which was to be among issues discussed at a bilateral meeting later yesterday between President Bill Clinton and Mr Chirac ahead of the G7 summit.

Canada, host of the summit, said France should quickly reverse its decision.

The response was strongest from Australia and New Zealand, which announced a freeze on defence co-operation with France during the testing period. Mr Chirac said on Tuesday the underground explosions on France's Mururoa atoll would cease by the end of next May, in time for a planned international test ban treaty to be signed.

Mr Alain Juppé, French prime minister, yesterday described the barrage of foreign protests as "a bit exaggerated and excessive".

Facing domestic criticism confined to a few left-leaning newspapers and opposition politicians, in a country with a relatively weak environmental and anti-nuclear movement, French ministers sought to ride out the storm of foreign protest at what Mr Chirac

called his "irrevocable" decision. They stressed France's need for the eight additional underground explosions to refine the technique of simulating future tests in laboratories.

Mr Juppé acknowledged France faced "a difficult period" with Pacific states during the planned tests between September and

May, but "over the medium and long term" it wanted to maintain co-operation with countries in the region.

Mr Hervé de Charette, French foreign minister, claimed that "while the most visible decision today may be the holding of the eight extra tests, the decision with the most important conse-

quences for the south Pacific as elsewhere, is the commitment to end tests next year definitely".

But Mr Juppé said France would not let itself be swayed by the complaints of the US and Russia who had nuclear weapon stocks "immeasurably" greater than France's.

Mr Chirac's decision to time

Picture AP

Greenpeace supporters bid farewell to the anti-nuclear movement's ship, Rainbow Warrior, as it leaves Auckland, New Zealand, yesterday on a mission to France's nuclear testing zone in the south Pacific.

Clarke extends inflation target

By Robert Chote,
Economics Correspondent

Mr Kenneth Clarke, the UK chancellor, yesterday extended the government's existing target for UK inflation beyond the next general election and said he would not be tempted by a "politically motivated dash for growth".

With an eye to his restive colleagues on the Conservative backbenches, Mr Clarke used his third annual Mansion House speech to warn that Britain should not afford "populist inflationary

Mr Clarke added he wanted to cut taxes in time, but that his Cabinet colleagues knew he could only do so if they kept tight control of government spending.

Mr Clarke reaffirmed his commitment to ensure that underlying inflation - excluding mortgage interest payments - is 2.5 per cent or below at the end of this Parliament.

He added that this objective

Swedish police net two Internet software pirates

By Alan Cane in London and Hugh Carnegie in Stockholm

Thousands of computer users worldwide who have been illegally downloading professional software from the Internet can expect retribution after Swedish police this week caught up with a pair of ambitious software pirates.

Two students at the Royal Institute of Technology in Stockholm have admitted loading popular software packages, including Aldus PageMaker and Microsoft Word, on to the Internet and inviting other users across the world to make their own copies.

In a three-week period during which the pair were under police surveillance, 3,150 packages were copied from the Internet, at an average value of \$50 a package, the loss to the publishers is estimated at \$1.7m.

The students, who cannot be named for legal reasons, are not under arrest but charges may be laid under Sweden's data protection laws.

Mr Agne Lindberg, a lawyer acting for the Business Software Alliance, which has been pursuing an aggressive campaign to eliminate software piracy, said the pair were not motivated by

profit: "In their culture it is not the money but the honour they have become quite famous for this".

Mr Allen Dixon, BSA European counsel, said it was the most blatant use of the Internet for software theft uncovered.

The computer addresses of people who copied the packages were known to the police and would be given to the BSA, he said. The BSA would demand the destruction of copied software and might ask for compensation.

The Internet is a worldwide telecommunications network linking several million computer systems and more than 30m users who exchange electronic mail and browse for information.

The Swedish students hacked into the university computer with a stolen password and created a database - a "bulletin board" - which could not be detected by the university authorities. They then loaded a variety of software packages into the database and invited Internet users to help themselves.

The university, one of the most respected in Sweden, was only alerted when an Internet user in the US sent a message warning that it was being cited as a source of free software.

Which environmental business won the National Energy Award in 1994?

STOCK MARKET INDICES

US LUNCHTIME RATES

OTHER RATES

NORTH SEA OIL (AVERAGES)

Austria Saks Great Brit Dated Males London Gold Date CPT1000

Belgium Bf70 Hungary Ft800 Italy Ft 425 Singapore S\$1000

Belgium Lrl1000 Ireland Irls 1000 Nederlands Pst/1000

Cyprus Cst170 India Rupees 1000 Nkr100 S. Africa R1200 Spain Pesetas

Czech Rep CZK550 Italy Ls1000 Pakistan Rs2000 Switz SF1000

Egypt Esd100 Japan Y100 Philippines Peso 5000 Syr 2500000

Finland FMF50 Kuwait Ft800 Portugal (cont'd) Tunisia Dmt 5000

France Ft1000 Lebanon US\$1000 Turkey Ls500000 Uae Dirhams

Germany Dm/250 Lux Ur700

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NEWS: EUROPE

Tietmeyer split with Brussels on Emu

By Andrew Fisher in Magdeburg

Differences between Germany and the European Commission over how monetary union should be implemented broke out into the open yesterday when Mr Hans Tietmeyer, president of the Bundesbank, criticised the method proposed in the recent Brussels green paper.

Although he did not state the central bank's objections, it is known to disagree with the green paper's proposal that a joint currency should be introduced in stages - first for large banking and other payments transactions and later for the public - after European monetary union (Emu) has been agreed.

The Bundesbank wants the new coins and notes to be brought in for all users at the end of the process, or

several years after Emu's likely start in 1999.

"We think this is too important a subject to be solved at a rapid gallop," Mr Tietmeyer said at a press conference after the central bank council met in east Germany. "In the Bundesbank, I can say we have a certain reservation about the critical mass concept [set out in the green paper] as it has been presented."

Under this concept, the new coins and notes would be brought in first for banking, insurance, commercial and government use. But the public would continue using national currencies until a "critical mass" had been established for the new currency's full introduction.

The Commission argues this would make the notion of a joint currency more credible to citizens.

The Bundesbank feels credibility should be possible without having to lead up to the widespread use of a joint currency and thus favours the "delayed big bang" idea. It points out that while big banks will be able to adjust to the staggered introduction of the new currency - Deutsche Bank, Germany's biggest bank, supports the green paper - smaller savings and other banks will need more time to adjust their operations, especially computer systems.

Mr Theo Waigel, Germany's finance minister, also at the Bundesbank meeting - before flying to the Halifax summit of leading industrial nations - was more circumspect, but made clear the government also did not agree fully with the Commission's proposals.

"The discussions should not be limited to one scenario," he

said. Both men also highlighted the role in the Emu preparations of the European Monetary Institute, the Frankfurt-based forerunner of the planned European central bank. Mr Waigel said the EMI's view was of "great significance". Mr Tietmeyer said it was conducting intensive studies into how Emu should be introduced and had sent out a questionnaire to banks; the EMI's initial views should be presented by the year's end.

So far, the institute has not commented on the green paper. It had no speakers at last week's Emu conference organised by Deutsche Bank and attended by Mr Yves-Thibault de Silguy, the European monetary commissioner, who presented the paper to a partly sceptical audience.

Mr Waigel emphasised the importance of strict adherence to the economic convergence criteria ahead of Emu. "The convergence criteria are, and remain, more decisive for us than all timetable plans," he said.

Noting that Germany was well within the criteria, he said its budget deficit could fall to 1 per cent of gross domestic product by 2000, if public spending rose only 3 per cent a year. "This would be well below the Maastricht criterion [of 3 per cent] which we achieved last year."

Both men expressed confidence in the progress of the east German economy. Mr Tietmeyer hoped the high level of transfers and subsidies to the east - totalling some DM100bn (£72bn) a year - could gradually be reduced over the longer term as growth, investment and job creation improved.

Bosnian minister fuels fears of big military offensive

By Laura Slifer in Belgrade and Our Foreign Staff

Bosnia's foreign minister yesterday fuelled expectations of an imminent military offensive to break the Serb encirclement of Sarajevo by saying the city could not endure another winter under siege.

Mr Muhamet Sacirbey, an outspoken member of Bosnia's Muslim-led government, said in Vienna that his country's army had to take "preventive measures" because the Serbs were introducing new armour into the Sarajevo area despite international warnings to keep heavy weapons out.

"This exclusion zone and ultimatum have not been honoured and the Serbs have brought new forces and new weapons into the area. There-

fore we do have to take preventive measures," Mr Sacirbey said after talks at the Austrian foreign ministry.

He declined to comment directly on reports from United Nations officials in Sarajevo that up to 30,000 Bosnian government soldiers were massing north of the capital, in an apparent preparation to break the 38-month-old Serb encirclement.

"I can neither confirm nor deny [the reports] but certainly as part of our overall strategic situation... we must be prepared not to liberate Sarajevo but actually to defend Sarajevo at this time," he said.

As well as voicing concern about the Bosnian army buildup, UN officials said they feared the Bosnian Serbs were stalling on the release of 26

peacekeepers who remain in custody despite the release in recent days of more than 300 others.

Mr Yuri Chizhik, a UN spokesman, said that Bosnian Serbs still held 20 UN military observers and soldiers, including 12 Canadians.

Mr Radovan Karadzic, the Bosnian Serb leader, claimed on Tuesday that only 14 would remain in custody for a short time longer, for what he described as technical reasons.

Mr Chizhik said that "all the technical obstacles are with the Bosnian Serbs, not with us" and UN officials said there were indications that the hostages were still being used as insurance against further Nato air raids. The Serbs took nearly 400 UN peacekeepers hostage after Nato air strikes

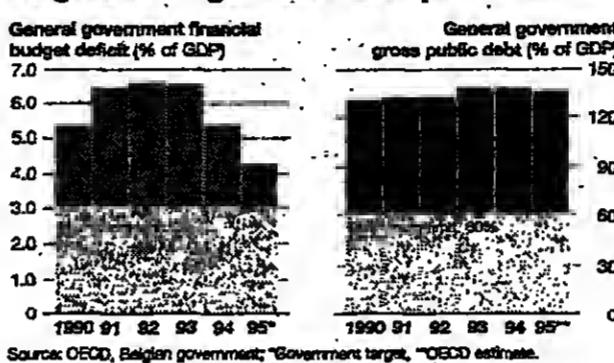
on May 25 and May 26. One official said of the remaining hostages: "They are being held as human shields in the most sensitive locations."

He said four of them had last been seen at the Jahorina radar station complex, a radar and air-defence command centre of the former Yugoslav army on a peak near Pale, the mountain stronghold above Sarajevo.

The facility is said to be used to monitor Nato aircraft from the moment they take off from Aviano airbase in Italy.

In other signs of increasing tension, Canadian peacekeepers were in Visoko, just north of Sarajevo, said they were braced for a Bosnian government offensive but could not confirm whether it would be aimed to break the siege.

Belgium's budget deficit and public debt



Belgian PM to give priority to Emu targets

By Emma Tucker in Brussels

The new Belgian government, expected to be in place by the end of next week, plans to reduce spending drastically and radically rewrite laws on competitiveness, in an effort to be one of the first countries to be party to a single European currency.

Mr Jean-Luc Dehaene, the Christian Democrat prime minister, intends to make reductions in the budget deficit one of the priorities of his centre-left administration, for which negotiations are being completed following last month's general election.

Belgium is determined to join France, Germany, the Netherlands and Luxembourg as the first to accept a single currency before the end of the century.

But questions have been raised about Belgian participation because of its high government deficit and, more seriously, the largest debt as a ratio of gross domestic product in Europe.

The Maastricht treaty stipulates that for a country to participate in European monetary union (Emu), it must reduce its debt-to-GDP level to 60 per cent, or at least be moving towards that target at a satisfactory pace, and reduce its deficit to 3 per cent of GDP.

Mr Dehaene stressed that the new judicial order will more narrowly define trading partners - currently seven countries - as France, the Netherlands and Germany. Furthermore, when the current freeze on wages is lifted next year, the government may decide to set a maximum level for wage increases based on projections for wage growth among the three main trading partners from the Organisation for Economic Co-operation and Development and the International Monetary Fund. This will end Belgium's unique tradition of automatically indexing wages.

The government is likely to face a barrage of complaints from employers who believe the contributions they have to make to the social security system are dammingly high. Some have even threatened to relocate to other countries where the tax burden is less heavy.

The savings are expected to come mainly from pensions, health and social security spending, in spite of emotional election pledges by the social-



Dehaene: determined

ists to safeguard Belgium's generous social security system.

In an attempt to prevent over-spending, Mr Dehaene has also proposed a change in the country's 1989 law on competitiveness.

This says that if Belgium loses market share to its immediate neighbours and if one of four other criteria - principally wage costs - shows a deterioration in relation to those of trading partners, then government, unions and employers are supposed to come forward with proposals to deal with the problem.

If they fail, the government can intervene.

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However, the Socialist party, one of the main coalition partners, has already agreed to respect the 3 per cent target for the budget deficit.

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EUROPEAN NEWS DIGEST

Gunmen attack Russian city

Dozens of heavily armed men dressed in camouflage gear yesterday stormed a southern Russian city, killing at least 40 civilians and taking hundreds of hostages in an attack Russian officials linked with besieged separatist forces in nearby Chechnya. First deputy prime minister Oleg Soskovets said the gunmen demanded the withdrawal of Russian troops from Chechnya.

Postfactum, a Russian news agency quoted a spokesman for Mr Dzhokhar Dudayev, the leader of Chechen separatist forces, denying responsibility for the attack, but the incident provoked a fierce reaction from the Russian leadership and raised fears that it could be the beginning of a wave of Chechen terrorism within Russia. According to Russian officials the gunmen entered Budionovsk, a Russian city of 100,000 some 70km from Chechnya, in two buses and a military jeep. Attackers stormed the city, temporarily seizing a hospital, a bank, and a government building and cutting off the town's communication with the outside world.

After an afternoon of gun battles, the gunmen were reported to be holding 180 hostages in the town and to have fled with other hostages, including schoolchildren, in the direction of Chechnya. Mr Sergei Medvedev, spokesman for President Boris Yeltsin, said "the president is deeply concerned by the terrorist attack of Chechen militants in the Stavropol region which resulted in casualties, hostages and disruption of the constitutional order".

Chrystia Freeland, Moscow

Corporate governance code
The European Union needs a code of best practice for corporate governance standards, as institutional investors increasingly seek to exercise control over the companies they own, according to a paper by the Centre for European Policy Studies, an influential think tank. The study on corporate governance in Europe, to be published today, argues that changes are needed in the relationship between the owners and managers of companies.

The paper urges the adoption of one share, one vote rules, a departure from practice in much of Europe where companies are allowed to set a ceiling on the voting influence of shareholders, regardless of the percentage of shares they own. It says the model code ought to emphasise that shareholders are entitled to appoint or remove directors, approve the dividend and the creation of new shares, and approve corporate by-laws.

Norma Cohen, Investments Correspondent

Yeltsin accept Lebed resignation
President Boris Yeltsin yesterday accepted the resignation of General Alexander Lebed, the maverick commander of Russian forces in Moldova. Gen Lebed, who is often touted as a possible presidential candidate in elections scheduled to be held next year, tendered his resignation earlier this month in protest at Moscow's plans to downgrade the army under his command and withdraw it from Moldova within three years.

Mr Yeltsin was thought to be wavering over Gen Lebed's resignation because of the danger that, released from his distant army headquarters and military discipline, the charismatic officer would be free to devote his energies to a political career.

Chrystia Freeland, Moscow

Probe into Spanish phone-taps
Spain's attorney-general has ordered an investigation into unauthorised phone-tapping by the Cossat intelligence service, which reportedly have recorded conversations by King Juan Carlos as well as politicians, journalists and businessmen. The defence ministry said the tapes, dating from 1984 to 1991, were meant to have been destroyed.

Amid a fiery political row over the disclosures, Mr Narcis Serra, deputy prime minister, and Mr Julian Garcia Vargas, defence minister, are due to report on the eavesdropping activities to a closed-door parliamentary committee meeting today. The affair has brought sharp criticism from within the governing Socialist party, as well as from opposition politicians. Mr Jose Bono, president of Castilla-La Mancha and the only Socialist regional leader to win an outright majority in elections last month, said the phone-tapping was "unacceptable".

David White, Madrid

Restrain on company chairman
Mr Guy Dejouany, chairman of Compagnie Générale des Eaux, the French utilities and communications group, has been placed under a limited form of judicial control by a French magistrate investigating corruption allegations. Mr Jean-Michel Frère, a magistrate from the French overseas territory of Réunion in the Indian Ocean, took the action after interviewing Mr Dejouany in relation to accusations of bribery in the award of water supply contracts in Saint-Denis, the island's capital.

Générale des Eaux stressed that the new judicial order would not restrict Mr Dejouany's ability to continue managing the group, and stressed that he had in no way been involved in any incriminating matters. Mr Dejouany is the latest in a series of French business leaders to be ensnared in corruption investigations.

Andrew Jack, Paris

Choice narrows on oil pipeline
The international consortium created to exploit oil reserves in the Caspian Sea off the coast of Azerbaijan will choose between two possible export pipeline routes within two months, officials from the consortium said yesterday. Exporting oil from the rich Caspian Sea basin has emerged as the largest remaining bundle facing the \$7bn project. The pipeline will offer political leverage and significant revenues to the countries through which it passes.

Officials from the consortium said they had narrowed the selection down to two routes: one passing through Georgia to the Black Sea port of Batumi, the second, a more circuitous northern route through Russia to Novorossiisk on the Black Sea. The consortium hoped to make a choice between the two routes within two months.

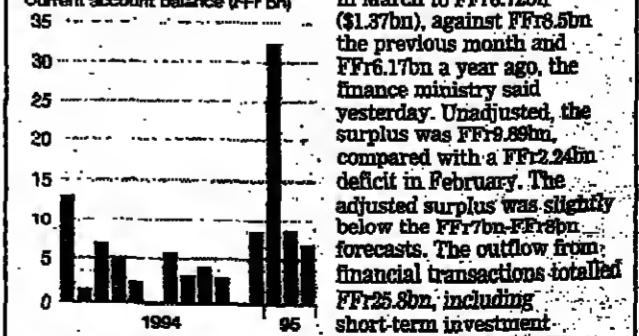
Chrystia Freeland, Moscow

ECONOMIC WATCH

Current account setback

France

Current account balance (FFr bn)



France's seasonally-adjusted current account surplus fell in March to FFr 7.22bn (\$1.37bn), against FFr 8.5bn the previous month and FFr 17.17bn a year ago, the finance ministry said yesterday. Unadjusted, the surplus was FFr 9.62bn compared with FFr 22.44bn in February. The adjusted surplus was slightly below the FFr 7.54bn forecast. The outflow from financial transactions totalled FFr 25.8bn including short-term investment outflow of FFr 18.56bn. The long-term capital outflow was FFr 19.52bn for the same period last year.

Andrew Jack, Paris

Greece's retail sales index rose by 3 per cent in March, year-on-year after a 4.5 per cent increase in February, the national statistics service said.

Finland's unemployment rate fell to 17.8 per cent in May from 18.3 per cent in April, the labour ministry said.



Jovica Stanisic: Milosevic's spy chief who knows the secrets of the Bosnian Serbs

out "ethnic cleansing" - expelling, killing, or imprisoning tens of thousands of Moslems from eastern and northern Bosnia in the first months of the war - were backed by Serbia's secret police.

But with relations between Mr Milosevic and the Bosnian Serbs severed - in theory at least - what leverage was Mr Stanisic able to exercise over his wayward kinsmen in Bosnia? According to one observer in Belgrade, Mr Stanisic was likely to have travelled to Pale with threats to reveal financial corruption or details of crimes committed during the war.

The Bosnian Serb leaders, who according to a Serbian MP "adore" Mr Stanisic, know that he does not trust.

Serbia is the only former communist country in Europe where the police have not been reformed or even challenged to loosen their grip over society.

Indeed, under the presidency of Mr Milosevic, the police doubled in size to about 100,000. The exact size of Mr Stanisic's secret service - who form an élite section of the police - is not known.

The prominence in Serbian life of the secret service, and its ability to infiltrate and manipulate all institutions, helps to explain why Serbian politics seldom follow western patterns.

In December 1993, for example, when inflation had skyrocketed to an incredible 1 per cent per month, there was virtually no protest. Mr Milosevic's Socialist party even managed to win in a legislative election.

Opposition parties complain that they are powerless against the propaganda machine which the Serbian president has built up with the help of the security police.

When Belgrade University, where he graduated in political science in 1974, was organising a class reunion recently, his was the only phone number which was impossible to find, wrote Mr Ivan Radovanovic of Vreme, the independent weekly magazine.

There were just three letters written after his name - SDB.

he has secured by building up a strong secret service. Mr Milosevic could hardly have allowed himself the luxury of currying favour with the west by abandoning his nationalist proxies in Bosnia and Croatia.

Mr Stanisic grew up in modest circumstances in Cvetka, a town in Serbia's northern province of Novi Sad. His

n attack
city

Fresh strike at Alitalia as anger grows

By Andrew Hill in Milan

The long-running dispute between the management of Alitalia, the Italian state airline, and the unions entered a new and unpredictable phase yesterday when pilots staged a wildcat strike in protest at restructuring plans.

Anpac and Appl, the main pilots' unions, warned that after more than six months of deteriorating relations with the state carrier's management, they were in danger of losing control over the union rank and file.

Yesterday's action began with what unions claimed was a spontaneous rally of pilots at Rome airport, many of whom then refused to work or called in sick.

Mr Renato Rivero, the airline's chairman, threatened criminal proceedings against the pilots for breaking the law which requires transport workers to give notice of industrial action and guarantee certain minimum services.

The airline said about one in four of its national and international flights out of Rome was cancelled, with knock-on effects for other incoming and outgoing services.

The Italian government has so far declined to use special legal powers to block the strike by the airline's workforce.

Although the government has offered to mediate between the two sides, there are signs that it is prepared to toughen its line.

Yesterday, Mr Lamberto Dini, Italian prime minister, met the transport minister, labour minister and the chair-

Boost for Dini as far left splits on pensions

By Robert Graham in Rome

Long-simmering differences within Reconstituted Communism, formed from the hardline members of the old Italian Communist party, exploded yesterday over pension reform and led to a formal split.

The break-up of the party, with the departure of 14 of the 29 deputies, will have important consequences for the passage of legislation reshaping Italy's deficit-ridden state pensions system. Although the break-away group are committed to introduce some amendments, they have announced they will back the general line of the reforms.

The defection - the third split in a political party this year - comes in advance of next week's debate in the chamber of deputies on the pensions proposals. It should give a boost to the precarious parliamentary majority on the issue of the government of prime minister Lamberto Dini.

The votes of these same deputies was vital for Mr Dini's government when they broke with party discipline and voted in favour of the mini-budget on March 16.

Differences became irreconcilable when Mr Fausto Bertinotti, the party leader, insisted on pursuing a policy of obstruction of the pension reform proposals by tabling 2,700 amendments. The proposals were worked out between the government and the leaders of the three main trades union confederations, with whom Mr Bertinotti has often been in strong disagreement.

"We've always respected the [minimum service] law, but there hasn't been any intervention to end this plan to dismember the company," he said.

The pilots' unions have scheduled an official strike for June 23, and unions representing ground staff and cabin staff are to strike for 24 hours on June 26.



Dini: can expect backing on pensions from some communists

way other than obstructionism of obtaining results that satisfy workers' interests," observed Mrs Rina Serri, a senator and one of the dissidents.

The dissidents have been led by Mr Sergio Garavini, a former trades unionist and deputy since 1987. Apart from 14 deputies, the break-away group comprises three senators and two Euro-MPs. In a formal note, the group said their resignation from the party would now allow them to work to create "a federation of the left".

This should bring the party closer to the Party of the Democratic Left (PDS), the largest political party on the left, which they refused to join when the Communist party was buried in January 1991. Reconstituted Communism rejected the abandonment of Marxist ideals and felt the adoption of a social democratic platform by the PDS was a betrayal of an ideological tradition going back to Antonio Gramsci in the thirties.

At first it called itself a movement and only became a party in December 1991. The party's support base has steadily grown, appealing to both the older-generation neocommunists and a young protest vote. Mr Bertinotti has combined hardline views with an aristocratic accent and a courteous manner, making him a popular politician.

Before the split, the party accounted for almost 7 per cent of the national vote. The support of this vote could well determine whether the centre-left alliance, headed by the PDS, wins a majority in the next elections. Until now the PDS and its centrist partners have shied away from an open alliance at a national level with a party that labels itself communist. The question now is how much of the vote will remain with Mr Bertinotti.

ABB and Daimler deal faces full probe

By Emma Tucker in Brussels

The European Commission indicated it will open a full investigation into a joint venture between Daimler-Benz, the German industrial group, and Asea Brown Boveri, the international electrical engineering group, which are joining forces to create the world's biggest railway equipment business.

Competition authorities in Brussels are worried that the venture - to be known as ABB Daimler-Benz Transportation - will give the companies a dominant position in the supply of railway equipment and could harm competition.

"It would be rather surprising if the Commission did not decide to open a detailed investigation into a joint venture of this size," said a commission official yesterday.

The joint venture cannot go ahead until it has the approval of the Commission which is expected to announce a detailed investigation before the end of the month.

It will then take some four months for Brussels to hear submissions from the two companies, competitors and domestic competition authorities.

There are likely to be strong complaints from the Bundeskartellamt, Germany's domestic competition authority, which has voiced concern over the effect the joint venture will have on the German market.

ABB is one of the world's three largest railway equipment suppliers alongside Siemens of Germany and the British-French GEC-Alsthom alliance.

The merger with the railway equipment arm of Daimler's troubled AEG subsidiary would make it about 40 per cent larger than its two main rivals, with a 1993 order intake estimated at DM5bn (\$5.5bn).

The venture, which will employ 22,000 people in 40 countries, will have its headquarters in Berlin and retain main manufacturing centres in Germany, the UK and Scandinavia.

ABB and Daimler will hold equal shares.

However, Daimler has agreed to pay ABB \$900m dollars in cash to compensate for the smaller size and operating losses of the businesses it is contributing.

Both companies have previously said there are no grounds for rejection of the joint venture, although the Bundeskartellamt expressed reservations about an aborted merger plan by Siemens and the AEG railway equipment division two years ago.

It is rare for Brussels to block joint ventures completely, although it may demand modifications from the parties involved.

Polish banker takes political gamble

By Christopher Bobinski in Warsaw

The head of Poland's independent central bank, Mrs Hanna Gronkiewicz-Waltz, yesterday said she was ready to stand as the candidate of the united anti-communist right wing in the autumn presidential election.

Her declaration represents a real threat to President Lech Wałęsa, who is planning to run for a second five-year term. Mr Wałęsa was hoping to garner the support of the various disparate right-wing, nationalist groups and the Solidarity trade union - political territory which Mrs Gronkiewicz-Waltz is now hoping to capture.

Until now Ms Gronkiewicz-Waltz, who was nominated to



Hanna Gronkiewicz-Waltz

government, led by the former communists, suspected that the bank's tight monetary policies were rooted in a desire to improve Mr Wałęsa's chances of winning the elections in the forthcoming election. However, Mrs Gronkiewicz-Waltz is expected to draw fire from President Wałęsa for pulling the central bank into the political fray.

The bank is already under attack from Mr Grzegorz Kolodko, the deputy prime minister and finance minister, who says its delay in lowering interest rates has contributed to higher than planned inflation this year, currently at an annualised 31 per cent. Mrs Gronkiewicz-Waltz's entry into the political arena is likely to increase attacks on the bank's policies.

An academic specialising in

banking law who came to head the bank three years ago, Mrs Gronkiewicz-Waltz argues that President Wałęsa's chances of winning the elections are so low that she should step aside. She said she should allow a stronger candidate to lead the campaign to stop the former communist Left Democratic Alliance (SLD) from capturing the presidency.

Mrs Gronkiewicz-Waltz said in recent interviews that President Wałęsa's achievements were so great that he should not risk defeat in the elections.

Mr Alexander Kwasniewski, the SLD leader, is leading the polls in the presidential race with about 30 per cent support, while Mr Jacek Kuron, a former dissident and Solidarity adviser who is running a

moderate anti-communist campaign, has an 11 per cent rating, slightly less than Mr Wałęsa's 12 per cent.

In the most recently published polls, Mrs Gronkiewicz-Waltz enjoyed a 4 per cent share of the vote.

The anti-communist right, whose roots are in the Solidarnosc movement, remains as split as it was in the 1993 parliament.

On that occasion the various right-wing groups stood separately and failed to enter parliament while the former communists went on to form the government thanks to an electoral law favouring the larger parties.

The various right-wing leaders have said that they will agree on their common candidate early next month.

Row over Russian way of making capitalists

By Chrystie Freeland

When Novosibirsk was founded just over a century ago it was swiftly dubbed the Russian Chicago. Now, with the collapse of communism, the city - established to serve as Russia's gateway into the wild steppes of Siberia - has again become one of Russia's frontiers.

An intense legal and political battle is being waged at the Novosibirsk Tin Factory, the former Soviet Union's monopoly producer, is emerging as a test case of Russia's capitalist transformation.

Like many of Russia's more

talented former Soviet factory directors, Mr Alexander Dugelny, the enterprise's manager for the past eight years, has succeeded in using the privatisation process to transform himself from communist functionary into capitalist proprietor.

A vigorous 43-year-old who sports the obligatory sharp western suit and sleek mobile phone of Russia's nouveau riche, Mr Dugelny still enjoys the tremendous power of personal patronage which was the traditional prerogative of Soviet industrial managers. For the tin factory's 1,300 employees "he is tsar and god".

Today he owns nearly 5 per cent of the factory outright and admits that, in effect, he controls a majority stake in the enterprise through intermediaries. The Novosibirsk factory's capacity of 20,000 tonnes of tin a year, and its output of 11,000 tonnes last year - more than five times greater than that of its nearest European rival - makes Mr Dugelny's newly acquired portfolio a valuable one.

The metamorphosis of men like Mr Dugelny from comrades into capitalists has been one of the most typical stories told by the former personal assistant to his former personal assistant says.

Today he owns nearly 5 per cent of the factory outright and admits that, in effect, he controls a majority stake in the enterprise through intermediaries. The Novosibirsk factory's capacity of 20,000 tonnes of tin a year, and its output of 11,000 tonnes last year - more than five times greater than that of its nearest European rival - makes Mr Dugelny's newly acquired portfolio a valuable one.

The journalist whose stories helped to spur the investigation has been physically threatened and factory employees who challenged the privatisation have been pushed out of their jobs, but, remarkably, three Russian courts have upheld their contention that the factory was privatised in an illegal manner and ruled that the privatisation must be revoked.

A final appeal is now pending before the Presidium of the Higher Arbitrage Court, the nation's highest civil court, and criminal investigations have been launched against the Novosibirsk Tin Factory's management. The court's decision, expected later this year, and the outcome of the investigations are likely to mark a turning point in Russia's am-

turts of Russia's economic reforms, see him as a martyr to lingering Russian opposition to private business and warn that if he loses his legal battle the real victim will be Russia's fragile capitalist economy.

Mr Dugelny admits to some of his critics' harshest allegations, but sees no wrong in them. For example, one of his policies which provoked the fiercest outcry in Novosibirsk was the internal system he established within the factory whereby he and his intermediaries bought shares from the workers in exchange for consumer goods purchased at the factory's expense.

Mr Dugelny argues that his 20 years of service to the factory have entitled him to reap some of the benefits of privatisation and asks why Muscovite financiers and traders, rather than the Soviet industrial elite, have a greater right to become the country's new capitalists.

As Ms Yana Rogozhina, the tough 32-year-old prosecutor who led the investigation, explains: "Some people say that the prosecutor was blocking the development of a new economic order, but the end does not justify the means. The prosecutor says the law is above everyone and must be upheld by everyone."

A police investigator who is pursuing the criminal aspects of the case and asked that his name not be reported, warns that unless the "illegal seizure" of assets by Russia's former apparatchiks is stopped now, the seeds could be sown for trouble in the future. "What will happen in a few years when the country wakes up and sees who owns it?" he asks.

But Mr Dugelny and his supporters, who include the archi-

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NEWS: THE AMERICAS

Sense of betrayal in Democratic camp

President Clinton's budget cuts plan is firmly rejected by his own side, reports Jurek Martin

The "morning after" reactions to any significant presidential initiative can often be written in advance. His party will broadly support him, the opposition will not and battle will again be joined.

That was not President Bill Clinton's fate yesterday after he had told the nation in a television address on Tuesday night that he proposed to balance the federal budget in 10 years, rather than seven as the Republicans wanted.

Far more significant than the faint Republican praise for his Damascene conversion - "too little and a bit late" was the standard response - was the palpable sense of betrayal from Democrats in Congress.

The mere act of Mr Clinton signing up to the deep budget-cutting advanced by the Republicans far offset in their eyes his kinder, gentler and longer-term approach, which spared education and took less of an axe to healthcare for the old and poor.

Congressman David Obey of Wisconsin, senior Democrat on the House appropriations committee, thought Mr Clinton had again caved in to pressure. "I think most of us learned some time ago that if you don't like the president's position on a particular issue you simply need to wait a few weeks."

Congressman Richard Gephardt and Senator Tom Daschle, the two minority leaders, had earlier tried to talk the president out of his new tack. Afterwards, Mr Gephardt commented:



Daschle (centre) and Gephardt (right) failed to get Clinton to drop his new tack, while all Byrd said was "flip-flop".

"The real losers will be the elderly and the families that support them." All Senator Robert Byrd, the prolix West Virginian, could say was "flip-flop".

Congressman Donald Payne of New Jersey, head of the congressional black caucus, which has usually been in the president's corner, said: "Ten years is as unreasonable as seven to make these cuts. It's

a quantum leap backwards for social policy."

Even Senator Joseph Lieberman of Connecticut, no flaming liberal, qualified his opinion. "I think he's being smart, but I'm afraid I'm in the minority up here." Congressman Charles Stenholm from Texas was rare in his praise. "There has to be a point when you stop saying what you're against and say what you're for." However,

the senator has long been a budget hawk.

Tensions between president and party were evident in Mr Clinton's first two years but were kept under control by the Democratic majority leadership - Senator George Mitchell and Congressman Tom Foley, the Speaker - to the point that legislation unpopular with rank-and-file Democrats, such as the North American

free trade agreement and the Uruguay Round, was passed.

Now that it is in the minority, the party's agenda seems to be diverging from that of the president ahead of next year's elections. Congressional Democrats, especially liberals, believe their best chances lie in fighting to keep the social infrastructure the party has built over the last 80 years.

They were comparing Mr Clinton's conversion to giving support to the need for a balanced budget with President George Bush's 1980 agreement to a tax increase. This flew in direct contradiction of his "read my lips, no new taxes" promise of the 1988 campaign and severely weakened his re-election prospects.

The president, on the other hand, senses a strong tide running in favour of balancing the budget among the independent-minded voters whose support he needs if he is to improve on the 43 per cent electoral share he won in 1992.

Equally, by entering the budget battle with his own, if still sketchy, plan, he may stand a better chance of modifying or stopping the most radical Republican cuts in social spending, many of which remain unpopular with weeks.

Mr Clinton is also a "policy work", as knowledgeable as any politician about how government actually works and what it does well and badly. To stand on the sidelines while the Republicans change its nature would surely have tested his patience.

Opposition party leaders

Chilean army defies Frei government

By Imogen Mark in Santiago

The Chilean army has taken General Manuel Contreras, the former secret police chief, into its own care, in a move that appears to challenge government authority.

The army has made no secret of its unhappiness with a Supreme Court ruling sentencing Gen Contreras to six years' imprisonment for the 1976 murder of Mr Orlando Letelier, a former Socialist minister, in Washington.

Army chief and former military ruler General Augusto Pinochet has said his forces would respect the order.

But the army mounted an elaborate operation before dawn on Tuesday to move the general from his farm in southern Chile to a naval hospital at Talcahuano, near the town of Concepcion. He was smuggled out without the knowledge of the police guards around his property.

The army also flew a decoy aircraft to Santiago, apparently to distract the press, while Gen Contreras was taken by helicopter to Talcahuano. The army claimed later the general's health had deteriorated suddenly forcing a landing at the hospital instead of flying to Santiago.

The government was kept in ignorance of the former general's whereabouts for several hours. Mr Carlos Figueroa, the interior minister, admitted that the government had "contradictory information" about Gen Contreras's movements.

President Eduardo Frei broadcast a televised message on Tuesday calling on all citizens to respect the law and democratic institutions, and to have confidence in the democratic regime.

Any questioning of due legal

process "would put at risk our stability, our country's international image and our national life together".

Opposition party leaders blamed the government and the judiciary for the delay in executing the sentence, passed two weeks earlier. Last-minute appeals by the defendant's lawyers have delayed the detention order, expected to be served on the general yesterday.

army claimed later the general's health had deteriorated suddenly forcing a landing at the hospital instead of flying to Santiago.

Havana permits private restaurants

By Pascal Fletcher in Havana

Cuba's government authorised private restaurants yesterday but at the same time applied strict regulations and hefty monthly licensing fees.

While the measure had been long expected as a further step down business in the state capital Villahermosa, and briefly took over the state television network to broadcast their defiance of Mr Zedillo.

His supporters blocked highways, closed down businesses in the state capital Villahermosa, and briefly took over the state television network to broadcast their defiance of Mr Zedillo.

The government cannot afford to ignore the accusations," said Mr Santiago Creel, a citizen councilor at the Federal Electoral Institute.

"The documentation raises questions about the source of those campaign funds."

ing \$1 a meal in the back yard of her home in the Havana suburb of Miramar.

The government had until now been turning a blind eye to the dozens of private restaurants, known as "paladeres" after a word borrowed from a popular Brazilian television soap opera, which had sprung up in homes and back yards in Havana and other cities.

Following the latest authorisation, private restaurateurs, who could include permanent foreign residents in Cuba, would have to pay a minimum monthly fee of 400 Cuban pesos (\$100).

Opposition lodges evidence to show PRI may have spent 60 times more than allowed

Zedillo faces funding scandal in Tabasco poll

By Leslie Crawford in Mexico City

Sixteen boxes of bank ledgers, check stubs, invoices and receipts have landed Mexico's ruling Institutional Revolutionary party (PRI) in one of the most embarrassing scandals of its 66 years in power.

The boxes were presented by the opposition Revolutionary Democratic party (PRD) to the attorney-general's office late on Tuesday as apparent evidence of illicit campaign spending during elections in the south-western state of Tabasco last November.

The PRD claims the documents prove the PRI spent 237m pesos, then worth \$70m, on the governorship race which Mr Roberto Madrazo, the PRI candidate, won.

The figure exceeds the legal limit on campaign spending 60 times over, and is more than twice the amount President Ernesto Zedillo reported spending on his presidential campaign last year. Officially, the ruling party spent just under 4m pesos on Mr Madrazo's campaign. He polled 290,000 votes.

"We knew very little about how the ruling party spent its money, but now, for the first time, we have documentary proof of the PRI's illegal and lavish spending in a state election," alleged Mr Andres Manuel Lopez Obrador, the defeated PRD candidate in Tabasco.

Mr Lopez Obrador has mounted a bitter attack on his PRI rival and asked Mr Antonio Lozano, the attorney-general, to investigate. Mr Madrazo has refused to comment on the allegations.

NEWS: WORLD TRADE

Airbus to run military project

By Bernard Gray in Paris

chooses to buy when the project is reviewed in spring 1996.

However, British Aerospace said that Althaus would not have a 51 per cent shareholding in the new venture, which would have allowed the FLA project to operate as a subsidiary. Instead, the FLA company will be an associate of Airbus with the Airbus consortium managing the project.

The British Ministry of Defence yesterday welcomed the agreement, notably the fact that it would be under Airbus' commercial management. "The UK is actively involved in making the aircraft," the ministry said.

Airbus management of the military project is a new phase in the 25-year history of the consortium, which has established itself as the world's second largest manufacturer of civil aircraft after Boeing of the US. An operational team has been established at Airbus' headquarters in Toulouse to prepare the next phase of the FLA programme.

The pre-development phase of the FLA is due to last from 1996 to 1998 and full development between 1998 and 2003 with production schedules thereafter.

However, the crucial test for the aircraft will come next year when the partner govern-

Shorts wins £40m military contracts

By John Murray Brown in Dublin

Short Brothers, the British aerospace company privatised in 1989, has won two military support contracts worth £40m (£52.8m) with Middle East customers.

The deals were announced yesterday by company president Mr Roy McNulty, during the Paris airshow and involve the maintaining of communication systems and support equipment, and training technical and maintenance personnel in several Middle Eastern countries.

Mr McNulty said the military support business was an "important and growing market sector" for the Belfast company, and the contract would further strengthen their position.

Shorts, now owned by Bombardier of Canada, also announced a missile agreement with Texas Instruments of the US, to supply the British defence ministry.

The company also announced a series of co-operative and licensing agreements and the winning of a £2.6m Ministry of Defence contract to supply the Stetson series supersonic target for air-to-air combat training.

Deficit drove Brazil car curbs

Angus Foster on a setback to the past five years of liberalisation

Sao Paulo's Europa Avenue, nicknamed "import alley" because of its miles of showrooms for shiny imported BMW and Japanese cars, was looking decidedly lacklustre yesterday.

The Brazilian government's decision on Tuesday to set a limit on car imports this year and introduce quotas from next January has left not just concessionaries angry. A former finance minister described the measure as "an unnecessary step back". A former central bank governor said it would hurt consumers. And the World Bank's chief economist for Latin America, Mr Sebastian Edwards, described the move as a "very worrying precedent".

Mr Jose Serra, planning minister and the man most in favour of the measures, insisted they were not protectionist and formed part of a new industrial strategy for Brazil's car industry. But perhaps the most telling response was the immediate welcome the new policy received from Sao Paulo's industrial federation, a notoriously protectionist lobby.

The measures, a big setback for Brazil's five-year-old economic liberalisation, stem from a mounting trade deficit since a new anti-inflation currency was launched last July. A growing economy, overvalued real currency and consumer optimism led to a flood of imports and an accumulated deficit for the first four months of this year of \$2.79bn.

Rather than devaluing, the government decided to use curbs on car imports, which had risen rapidly since November.

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Tuesday's announcement goes even further and sets a fixed limit on the number of cars to be imported this year. About 200,000 vehicles have been imported so far, and the government will allow only a further 50 per cent of that total, or about 100,000. If cars waiting at Brazil's ports and on order from foreign factories are

included, the limit may already have been reached.

From next year, the government will limit the imports of car makers with plants in Brazil to a fixed proportion of their exports, probably 1 for 1. These companies, which include Volkswagen, General Motors, Ford and Fiat, will also start to enjoy tax benefits on their imports of components.

If, as most analysts expect, the demand for imported cars remains high, the government will insist that car makers without production in the country will have to bid for order from foreign factories are

import quotas. These are likely to be set at a fixed proportion of domestic production, yet to be decided.

The government said a final decision on whether to introduce the quotas would depend on imports and the country's balance of payments this year. But analysts said the 70 per cent tariff would need to be renewed in March and the quota system would be introduced then in its place.

Ms Dorothea Werneck, industry minister, said the new rules would promote investment by car companies in Brazil while the tax benefits would make Brazilian exports more competitive. Car manufacturers, which last year produced 1.58m vehicles, hope to be making 2.5m-3m units by the end of the century, making Brazil one of the largest producers.

Brazil's foreign ministry said the new measures did not contradict its responsibilities under the World Trade Organisation, but the country's trade partners may not agree. Under WTO rules, quotas are illegal except under specific circumstances, only one of which - an imminent balance of payments problem - may be relevant in Brazil's case.

But Brazil's foreign reserves are above \$30bn and ministers keep insisting it will record an overall trade surplus this year. Car imports have fallen sharply since the tariff increase and are less important than imports of other consumer durables and capital goods. Trade partners such as the US, which expressed concern about the 70 per cent tariff, may argue the latest measures are not suitable.

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Argentina fears industry damage

By David Pilling in Buenos Aires

The Argentine car industry could be seriously damaged if Brazil were to impose quotas on imports of Argentine vehicles, officials in Buenos Aires said yesterday.

The company also announced a series of co-operative and licensing agreements and the winning of a £2.6m Ministry of Defence contract to supply the British defence ministry.

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established as part of the Mercosur customs union. Under that agreement, Argentine carmakers have free access to the Brazilian market.

On Tuesday morning, Argentina had been convinced it had won the assurance of Mr Fernando Henrique Cardoso, Brazil's president, that its vehicle exports would continue to be exempt from quotas.

But officials yesterday admitted to being "confused" by the wording of the decree, issued

on Tuesday night, which seemed to imply Argentina was not.

The possible rule changes coincide with a bad time for Argentina's vehicle industry which has suffered a 38 per cent fall in domestic sales this year as credit becomes less easily available from local banks.

To compensate, Argentine manufacturers have boosted exports to Brazil by 40 per cent, hoping to transform last

The Boeing 777-300: suitable for high-density medium-range routes, it can seat up to 550

Boeing wins \$3.1bn orders

By Michael Shapka, Aerospace Correspondent

Four Asian airlines have promised orders worth \$3.1bn for 31 Boeing 777-300s (pictured above), Boeing said yesterday.

Twenty of the orders for the lengthened versions of the Boeing 777 are new. The others are either confirmations of existing orders or conversions of orders for other 777 models.

The first 777-300 - which can carry up to 550 passengers - will be delivered to Cathay Pacific in spring 1998, with deliveries to the other three buyers - All Nippon Airways, Korean Air Lines and Thai Airways International - to start later the same year.

The announcement of orders for the "lengthened" model follows the entry into service last week of the first version of the aircraft, the 777-200. The standard 777 carries between 300 and 400 passengers.

Boeing said the "lengthened"

model would be 33 feet longer than the 777-200, with a total length of 242 feet. A 777-300 with three classes would carry 368 passengers. An aircraft with only business and economy class could carry 451 passengers, while an all-economy 777-300 could hold 550 passengers.

Mr Ron Woodard, president of the Boeing commercial aircraft group, said he expected airlines to use the 777-300 as a replacement for early versions of the Boeing 747.

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...the government later the next day, focusing a lengthy investigation instead of trying to determine what the former president had done. The government was less than forthcoming about the former president's role in the case, however. The government had "some information" about the former president's involvement, Edwards said. Edwards' lawyer, Michael Callahan, called on the government to "respect the law and the rights of our clients" in the investigation, he said.

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Opinion



GUARANTEED LEASE FINANCING FOR A GLASS MAKER IN SOUTH AMERICA

(We Saw Through All The Tax Implications)

The more complex the problem, the more experience it takes to see the answer. Here our knowledge of Eximbank programs and the tax laws of one South American country helped us defer costly import duties for our client. To achieve our clients' vision, we offer multi-faceted solutions.

Bank of America

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NEWS: ASIA-PACIFIC

French ties cut by New Zealand and Australia

By Nikki Tait in Sydney,
Terry Hall in Wellington
and William Dawkins in Tokyo

Australia and New Zealand yesterday said that they were freezing all defence co-operation with France, in protest at the decision by Paris to recommit nuclear testing in the South Pacific. Japan also reacted angrily to France's decision, a doubly sensitive matter on the 50th anniversary of the atomic bombing of Hiroshima and Nagasaki.

French President Jacques Chirac announced on Tuesday that his country would begin a series of eight tests at Mururoa Atoll in September, ending a three-year moratorium. France plans to conclude the tests by May 1996, in time to sign an international test ban treaty.

Mr Yohei Kono, Japan's foreign minister, said the move betrayed the trust of non-nuclear countries, which had recently agreed indefinitely to extend the nuclear non-proliferation treaty. Mr Hervé de Charette, his French opposite number, informed Mr Kono of the decision by telephone yesterday.

In reply, Mr Kono asked the French government to reconsider the tests.

Mr Tomiochi Murayama, the Japanese prime minister, plans to raise what he called the "regrettable" decision at the summit of the Group of Seven

industrialised nations which opens today in Halifax, Nova Scotia.

The French decision provoked strong criticism among delegates at a United Nations conference on disarmament in Nagasaki. Mr Wolfgang Hoffman, Germany's representative to the UN conference on disarmament in Geneva, dubbed it "politically incorrect".

In a formal statement Mr Paul Keating, Australia's prime minister, said that Australia "deplored" the decision and was "adamantly opposed to nuclear testing by any nuclear weapon state". He added: "In recent months, we have made our opposition very clear to the French, including to President Chirac." Mr Keating is understood to have written personally to the French president, arguing against a resumption of testing.

Meanwhile, the 15-nation South Pacific Forum, whose leaders are due to meet around the time that the French tests recommence, strongly condemned the decision, saying that it demonstrated "flagrant disregard" for world opinion and that its timing was "particularly provocative".

Philippines President Fidel Ramos said: "Testing of this nature will again encourage the production of nuclear arms, which is counter-productive to the environment of peace that we now enjoy here in our region." Indonesia's Foreign Office said France was in breach of an agreement at the recent UN Nuclear Non-proliferation Treaty conference for nuclear weapons states to exercise restraint.

In a marked contrast to elsewhere, reaction from European governments was mild or non-existent. The British foreign office said: "We don't intend at this stage to pursue some sort of breach of international law



Dominique Girard, French ambassador to Australia, waves away reporters after meeting foreign minister Bob McMullan

that would allow us to take unilateral action against France. And if contracts have already been entered into, we're not suggesting people should break them. But I think a lot of [Australians] will... make our disapproval effective through the check-out counter and through the way we use our money."

French exports to Australia were worth \$1.6bn (£721m) in 1994. The widespread indignation could also raise particular difficulties for Axa, the French insurance group, which is seeking to acquire a 51 per cent interest in National Mutual, Australia's second largest life company, for \$1.1bn.

The agreed deal needs the backing of 75 per cent of policyholders, and some anti-French sentiment because of the nuclear issue is already evident. This has been particularly prominent in New Zealand, where about 38 per cent of NML policyholders live.

that would allow us to take unilateral action against France. And if contracts have already been entered into, we're not suggesting people should break them. But I think a lot of [Australians] will... make our disapproval effective through the check-out counter and through the way we use our money."

French exports to Australia were worth \$1.6bn (£721m) in 1994. The widespread indignation could also raise particular difficulties for Axa, the French insurance group, which is seeking to acquire a 51 per cent interest in National Mutual, Australia's second largest life company, for \$1.1bn.

The agreed deal needs the backing of 75 per cent of policyholders, and some anti-French sentiment because of the nuclear issue is already evident. This has been particularly prominent in New Zealand, where about 38 per cent of NML policyholders live.

Negotiations scheduled in a week as Tokyo seeks to head off a breakdown in relations

Japan and US agree to resume car talks

By William Dawkins in Tokyo

The US and Japan agreed yesterday to resume talks on their car trade dispute, so reducing the risk of the row disrupting the Group of Seven industrialised nations' summit, which opens today in Halifax, Nova Scotia.

Mr Ryutaro Hashimoto, Japan's minister for international trade and industry, yesterday invited the US to send senior officials to reopen talks in Geneva on June 22 and 23, less than a week before the June 28 deadline for US tariffs on \$5.9bn (£2.7bn) of Japanese luxury car imports. The most recent round of talks in the 20-month dispute broke down on Monday night.

The invitation partly reflects Japanese eagerness not to allow the trade row to harm other areas of its relationship with Washington. Mr Tomiochi Murayama, the Japanese prime minister, will today meet President Bill Clinton in an attempt to smooth relations, before the start of the G7 summit in Halifax. It also reflects the Canadian host government's anxiety to prevent the trade row from interfering with the summit's busy agenda.

The two leaders may today discuss cars, but will not negotiate, said officials. Mr Murayama is also expected to tell Mr Clinton that the Japanese government is prepared to make more increases in public spending to stimulate the fragile economy and curb the current account surplus.

In another gesture towards keeping the trade row at bay during the summit, Mr Hashimoto announced that he did not plan to meet Mr Mickey Kantor, the US trade representative, in Halifax. Japan would attend the next Geneva talks "without any preconditions", said Mr Hashimoto. The move was welcomed both by leading Japanese car makers and by Mr Walter Mondale, the US ambassador to Japan. Japanese officials are aware

Mr Matsushita also referred to the weakness of the financial system, burdened by a growing volume of bad debts. Conversion of bad loans into marketable securities would help banks dispose of non-performing assets, he said, touching on an unresolved debate between leading banks and the finance ministry.

Banks are keen to make use of debt securitisation, possibly on a very limited scale in Japan, but the cautious ministry has so far been unwilling to permit what it fears may turn out to be a potentially speculative market. Mr Matsushita has since taken office last December limited several times that securitisation would help the banks.



Hashimoto: not planning a meeting with Kantor

ing system for countries in financial trouble to reduce the risk of a Mexico-style catastrophe taking place among the emerging economies on its own doorstep in east Asia.

Japanese officials have fought hard for the inclusion of such a plan in drafts on which the summit communiqué will be based. Mr Murayama is also expected to support draft plans to double the emergency loans available to crisis-hit countries under the International Monetary Fund's general agreement to borrow.

In addition, Japan is eager to make its first contribution to the G7's deliberations on Bosnia. Mr Yohei Kono, deputy prime minister and foreign minister, early last month became the first Japanese cabinet member to make an official visit to Croatia, where he indicated that Tokyo was willing to help mediate in the Balkan conflict.

Mr Kono, who will accompany the prime minister in Halifax, is keen to demonstrate Japan's interest in matters outside Asia, thus bolstering its candidacy for a permanent seat on the United Nations Security Council.

White House to decide Vietnam recognition soon

By Nancy Dunne
in Washington

The White House is debating a recommendation by Mr Warren Christopher, the US secretary of state, that Washington establish diplomatic relations with Vietnam for the first time since 1975, when US troops were airlifted out of the country in a humiliating withdrawal.

A decision is expected by the end of the month. If it is favourable - and most observers expect that it will be - then Mr Christopher may visit Vietnam at the end of an Asian trip in early August.

The US has been moving slowly towards full diplomatic relations for years, with Hanoi providing increased co-operation in the US effort to locate missing US prisoners of war. Hope that some of the missing may yet be found alive has faded as one mission after another returned with nothing more than bones.

The time is right. The moon, the planet, the stars, all are lining up on this one," said a State Department official.

Senator John McCain, a Republican and former prisoner of war in Vietnam, last month called for a normalisation of relations. This provides political cover for the White House and ensures that criticism from Republicans on the

Capitol Hill will be muted. Congressman Bill Richardson, a New Mexico Democrat, recently returned from Vietnam with 100 pages of material on the missing.

"Given Vietnam's massive and recent co-operation on the MIA [missing in action] issue, I think it may be time to recognise them," he said. Vietnam also has turned over other documentation relating to more than 1,600 Americans considered missing in action.

Mr Christopher's support for recognition is reportedly based on a recommendation from Mr Winston Lord, assistant secretary of state for South-East Asia.

Opposition is politically driven and emanates from the National Security Council. However, the State Department official said that no one who opposes diplomatic ties would vote for Mr Clinton in any case.

Movement towards full relations has been urged by the US business community, which sees the former enemy as a market for infrastructure contracts and capital goods. The US is well behind Japanese and European companies in the area.

Cementing its links within the region, Vietnam is next month to become the seventh member of the Association of South-east Asian Nations.

FINANCIAL TIMES THURSDAY JUNE 15 1995

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Government officials
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there is still a long way to go.

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NEWS: INTERNATIONAL

\$6bn new fleet deal signals revised flight plan for Saudia

Details, expected to be announced on the Saudi airline's 50th anniversary on Sunday, point toward a restructuring, writes Robin Allen



Saudi Arabia's national airline
Saudia is expected formally to announce on Sunday, its 50th anniversary, that it will buy up to 60 long and short-haul aircraft worth some \$6bn (£3.75bn) from Boeing and McDonnell Douglas.

The order is likely to be spread over five years or more. At the same time the airline will be radically restructured, according to bankers and industry sources.

Uncertainties over the future shape of the airline industry, as well as Saudi budget constraints, complicated the negotiations with US government

agencies and two US companies that lasted 15 months. The latest round took place in Jeddah in the two weeks before a cabinet meeting on June 5 at which the deal is understood to have been approved. Saudia comes under the ministry of defence and aviation.

It was 50 years ago, on June 18 1945, after a meeting with King Abdul-Aziz Ibn Saud, the founder of modern Saudi Arabia and father of the present king, that US President Franklin Roosevelt presented the king with a DC-3 Dakota, Saudia's first civil aircraft.

When on February 16 last year US President Bill Clinton announced that the US companies had won the order, it was

thought that Saudi Aramco would make firm commitments for the full order. But by the end of last month, the emphasis had changed.

The Saudi decision to buy American aircraft - rather than, say, the European Airbus which was strongly lobbied for by the French and the Germans - was seen by Mr Clinton as Riyadh's thanks to the US for the Gulf war and his early intervention is said to have irritated the Saudis and been behind the delay.

"The intention now is to announce 'serial contracts' - a series of orders staggered over several years," one banker said.

The disadvantage of staggering purchases is that it adds to the \$6bn cost. Aircraft ordered in four to five years will cost more than they do today. But extended delivery schedules would give the government greater flexibility in the restructuring and privatisation of Saudia, including, it is suggested, the possibility of part of the \$6bn order going to a new airline - either to compete with Saudia on domestic routes or to act as the sole domestic carrier. This would leave Saudia free to concentrate on the profitable international routes, which would make it more attractive to investors.



Saudia's first civil aircraft: the DC-3 gift from US President Franklin Roosevelt to King Abdal-Aziz Ibn Saud 50 years ago

Saudia does not publish its results, but aviation industry sources say it lost \$36m in 1993 on operating revenue of \$857m. While its results are thought not to have improved last year, it could break even or go into profit this year, after fare increases that followed last January's cuts in subsidies on domestic flights as part of the government's measures to reduce the budget deficit.

Fares went up 20 per cent on first-class domestic flights, 15 per cent on business class and 10 per cent for economy class. Bankers at an air finance conference in Dubai in January reckoned the increases could

bring in an extra \$R250m (\$86.7m) this year.

Saudia has a reputation for inefficiency and for being a bottomless pit for state money. Up to 70 per cent of Saudia's flights are on subsidised domestic routes, with only a third on full-fare international flights but which provide two thirds of the revenue.

"I tend to discount the general impression of Saudia being a bloated loss-maker like other national airlines," said one Saudi banker. "Saudia actually helps the finance ministry in some areas."

"True, it benefits from cheap fuel supplies from state refiner-

ies. But its payments are made on time; and what it gets in

cheap fuel supplies is offset by what it is owed by other state institutions whose payments are not so timely."

Traditionally, Saudia has operated as a subsidised public service. Passengers, particularly on domestic flights, have benefited from cheap tickets.

That for years was all Saudia could claim in its "sales pitch".

In return passengers have put up with whatever conditions they found on board. If they are now to pay more, Saudia has to do something to make its services more attractive.

The first - and easiest - way to enhance their domestic and regional image is to replace an ageing fleet.

The second is to introduce competition from.

The oldest aircraft in Saudia's 70-strong fleet are the Boeing 737s. Industry sources say these and the Lockheed Tri-Stars in the long-haul fleet have been in operation for 20 years. Some of its Boeing 747s also need to be replaced.

This suggests the airline will replace the international one-third of its fleet with some 20 of Boeing's latest 777-200s, or a combination of these and the stretched 777-300X which could take another 25 per cent pas-

senger. The latter is still on the drawing boards.

These would also conform to the government's perceived need to show off the latest and the best abroad. However, since they will not be ready for delivery for several years, Saudia could buy a handful of 767s and/or the Boeing 747-400. That would leave the 110-seat McDonnell Douglas MD-80 to replace most of Saudia's 737 fleet for domestic and regional services.

Although, according to industry experts there is a "significant difference" between catalogue and end-price, the 777-200s with engines and spares would cost \$150m-\$160m each, totalling some \$8bn. The cost of six 747-400s would come to some \$800m.

The catalogue price for each MD-80 is \$32m. Engines would add another 30 per cent, and spares another 15 per cent.

This would total some \$1.1bn for 30 aircraft, a price which would rise depending on delivery dates and financing costs.

But the specifics of the pricing, or indeed the types of aircraft to be ordered, are less important for the future of the kingdom's economy and its civil aviation industry, than the prospect of wholesale privatisation of what up to now has been an indifferent state monopoly.

Saudis turn to Islamic banks

By Robin Allen in Dubai

Islamic banks are expected to play a prominent role in financing Saudia's purchase of \$6bn of new aircraft over the next 10 years.

Islamic banks - and Islamic banking divisions of western banks which have greater placing power - "now have enough experience and assets to easily absorb a deal this size," according to one Saudi joint-venture banker. Islamic banks have already raised Islamic funds for aircraft leasing.

Using Islamic banks would be "politically correct" as well as practical. It would also be an innovation for Saudi Arabia, which, despite a hyper-sensitive insistence on the pre-eminence of its Islamic identity, has so far shied away from allowing domestic Islamic banks to advertise the fact, because it would draw attention to the fact that the bulk of the banking system is based on interest.

Bringing in Islamic as well as domestic and international commercial banks would also be consistent with the degree of flexibility the Saudi government needs if it is serious in its long-term plans to make Saudi commercially viable before it is privatised.

After President Bill Clinton announced last year that the two US companies had won the order, it was widely assumed by bankers and aircraft industry experts that Saudi would confirm the full \$6bn order and that the US's Export-Import Bank (Eximbank) would finance 55 per cent of the total in export credits, with additional financing to be arranged by Chase Manhattan and Saudi Arabia's National Commercial Bank.

Few saw the difficulty posed for the Saudi finance ministry when faced with Eximbank's insistence on the blanket guarantee for the full \$6bn; even though, as a branch of the defence and aviation ministry, Saudi is entirely state-owned.

A new "serial" approach to

Saudi's aircraft orders and financing would release the

finance ministry from guarantee.

Levels of aid for poor nations fall to 20-year low

By Krishna Guha

Overseas development aid from the world's richest countries fell by \$8bn in 1993, the first significant fall in more than a decade, and now represents a smaller proportion of wealthy nations' GNP than at any time in the last 20 years, according to an independent report published today.

Even as the volume of aid falls, it is increasingly influenced by commercial and political concerns rather than the need for poverty relief, said the report, jointly published by the International Council of Voluntary Agencies, Eurodad and UK-based ActionAid. Agricultural protectionism, strategic concerns and desire to promote arms exports often contradict the stated goals of aid programmes.

The report, Reality of Aid, illustrates the gulf between promises made at the Copenhagen social summit earlier this year and actual aid flows. In spite of longstanding commitments to the UN aid target of 0.7 per cent of GNP, the percentage fell in 14 of the 21 countries of the OECD's Development Assistance Committee, bringing the average down to 0.30 per cent from 0.33 per cent in 1992.

"Governments are in danger of giving up in the fight against absolute poverty," says Mr German.

teeing all but a portion of the \$8bn at any one time. "Eximbank would come in, but later and for a smaller amount," bankers said.

"The finance ministry chokes on the idea of giving a large blanket guarantee," one Saudi banker commented. "A step-by-step approach could unlock some of the barriers, and would fit in better with the progress the government is making to increase revenues, settle payments arrears, cut subsidies, and cover the budget deficit."

There has also been considerable official anger at the overbearing "take-it-or-leave-it" attitude displayed by Eximbank and US government officials. "The Saudis had some very nasty discussions with Eximbank," one banker said.

The talks took a very bad turn. It seems Eximbank's message was: 'At the end of the day we are the lenders of last resort, and if you don't like our terms you can find other ways.' And that is what the Saudis have been doing for the last year. Hearing nothing, the banks started thinking the deal would not go through and many had struck it from their agendas."

The government's search for "other ways" will have been boosted by its prompt repayment on May 24 of the last part of its \$4.5bn 1991 international loan. This has enhanced its reputation for financial dependability. The government will also have been encouraged by last week's successful syndication of a \$700m loan, under a Saudi-US joint petrochemical venture. Bankers have described this loan as "an international vote of confidence" in the Saudi economy.

One fundamental question however remains: the extent to which the Saudi leadership is prepared to allow the private sector to own part of its national airline. Hitherto it has been regarded as a strategic asset second in importance only to the national oil industry. In Saudi Arabia, politics and high finance are inextricably linked.

House to Vietnam soon

By Krishna Guha

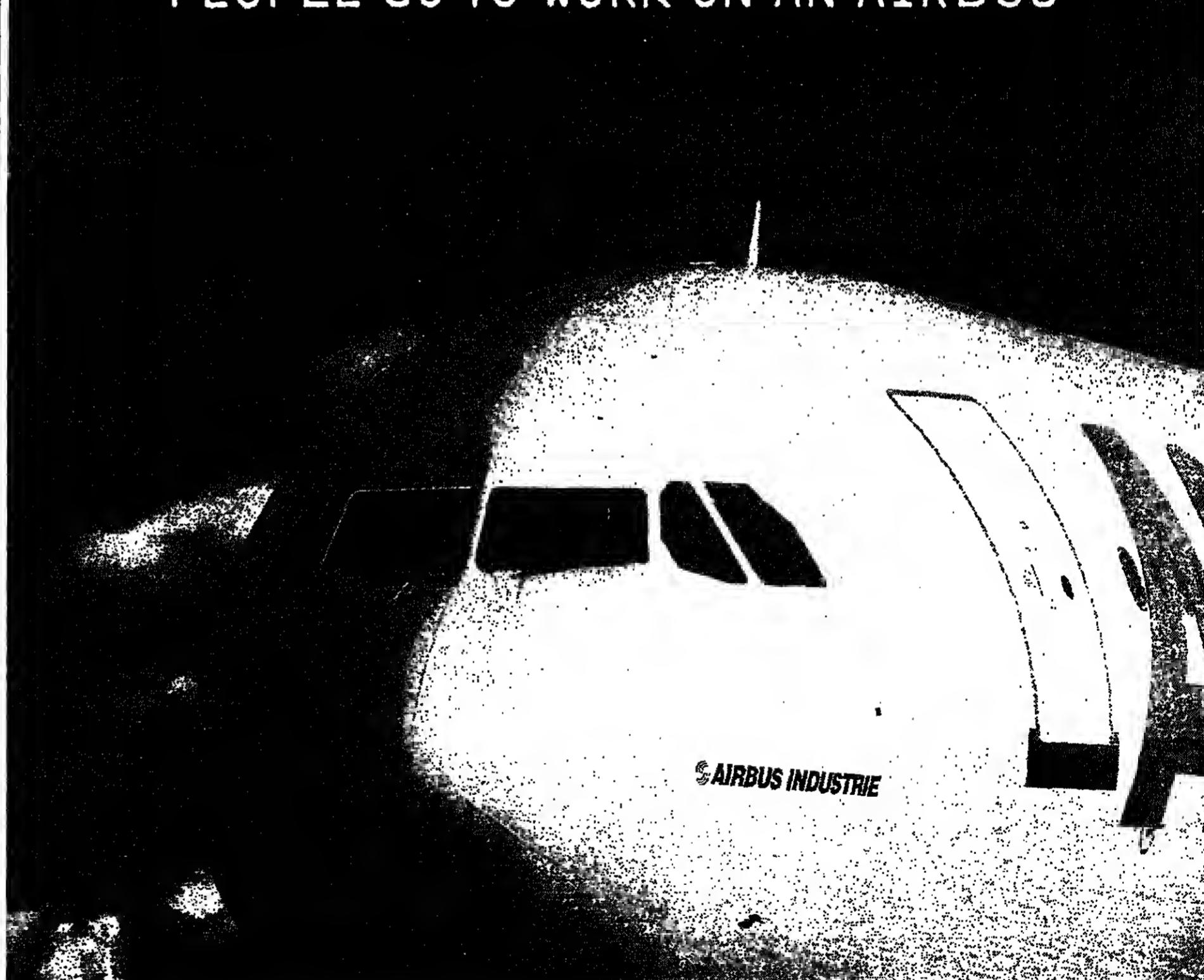
The agencies warn that this trend is likely to continue, particularly in view of efforts in the US Congress to cut aid by \$2bn. Mr Nigel Twose, director of ActionAid, said: "There is real danger of the US aid effect spreading." Canadian aid, for instance, will decline by 15 per cent today.

The agencies acknowledge that private investment flows to the developing world rose substantially in 1993, offsetting cuts in official aid and increasing the total flow of resources from the developed world.

However, they argue that private investment, which is channelled to countries with immediate potential for growth, is not an adequate substitute for aid. While India, China and Indonesia received a large proportion of global private investment in the five years to 1993, sub-Saharan Africa, the world's poorest region, received only 1 per cent.

The report points out that aid itself is increasingly attuned to countries which offer promising opportunities for trade or, like those in Eastern Europe or North Africa, present security concerns. "Sub-Saharan Africa is in real danger of being marginalised," says Mr German.

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NEWS: UK

Pact on EU currency destroyed by premier's failure to tame right wing

Top ministers push for Emu referendum

By Robert Peston,
Political Editor

Senior cabinet members are pushing for a government commitment to hold a referendum on sterling's membership of a single European currency as the best way to end the dispute about European Union policy which is tearing the government apart.

The prime minister, Mr John Major, is yet to make up his mind on a referendum. However, he has made clear to colleagues that he is now less likely to move his EU policy in a more anti-European direction after the mauvaise received on Tuesday at a meeting of Eurosceptic MPs from his Conservative party.

"You don't behave like that as prime minister," said a senior minister. "He could not possibly trim his approach to Europe now. It would make his position untenable."

The angry criticism which Mr Major faced in the meeting undermines a pact reached last Thursday by a meeting of the political cabinet - a full cabinet meeting to discuss party affairs - that pro-European and Eurosceptic ministers would tell their supporters on the Conservative backbenches to cease hostilities. "There was full and explicit support from both wings of the cabinet in the need to call a truce," said a minister. Now that had been thrown away.

Both the home secretary, Mr Michael Howard, and the foreign secretary, Mr Douglas Hurd, have come round to the view that a commitment to hold a referendum is the only way to draw the fire of fanatics in both camps of the European argument. They face opposition from Mr Kenneth Clarke, chancellor of the exchequer.

The UK will not be forced to decide whether to accept a single European currency during

An autumn challenge to Mr John Major's leadership of the Conservative party appeared virtually certain yesterday as MPs digested the implications of his bruising clash with Eurosceptic rightwingers on Tuesday. "There is now absolutely no chance that he can survive, because he has shown himself unable to give a lead and he has lost his authority," said a senior rightwinger previously loyal to Mr Major. There was widespread agreement that Mr Major's position was fatally undermined at the meeting by his inability to exercise authority. Several pro-European MPs look willing to back a leadership contest. One leftrwinger, formerly a Major loyalist, said he would give his vote to any challenger who received the required number of nominations. "I fed up of waking every morning and hearing a steady drip-drip of bad news," he said. "The prime minister has just lost all sense of crisis management. The main thing now is to get someone who can avoid a Canadian-style wipe-out."

In a prolonged and bitter debate yesterday trade union representatives at the ILO conference demanded that the British government should be punished with a "special paragraph" in the ILO's report for banning unions at GCHQ. This is the ultimate sanction that can be used against a country for violating labour standards. In recent years Myanmar, the Sudan, Panama and Ecuador have received special paragraphs for abuse of workers' rights.

But a number of governments, notably France and Germany, said they were unwilling to support a "special paragraph" for the British government because its behaviour over GCHQ was not a serious breach of labour standards.

The UK's strongest ally was the Indian government, which received a special paragraph last year for tolerating bonded labour. It supported the British government's ban on trade unionism at GCHQ.

Eurosceptics want the UK to push for repatriation of EU powers back to national governments, leaving the EU in effect as only a free-trade area.

ILO delays action against union ban

By Robert Taylor,
Employment Editor

The International Labour Organisation pulled back yesterday from censuring the British government for outlawing trade unionism at its GCHQ communications and intelligence-service station 11 years ago.

The Geneva-based body said the government should be given a "final opportunity" to resolve the issue. It proposes to create an advisory mission to examine what should be done.

Mr David Coleman, US economist at Canadian Bank of Imperial Commerce, said the figures were "very encouraging for the inflation outlook, with earnings growth stubbornly refusing to pick up".

However, he added that the main reason for this was not hard to find. "Despite the strong recovery last year, inflation in the job market has remained ripe," he said.

"Hardly any day passes without some announcement of job

Flat earnings growth applauded in City

By Gillian Tett,
Economics Staff

Average earnings growth remained flat last month, official figures showed yesterday. The data was greeted with joy in the City, where many economists had expected it to rise. Indeed, with earnings growth remaining very low by historical standards, economists said the data should give a powerful boost to the government's attempts to keep inflation low.

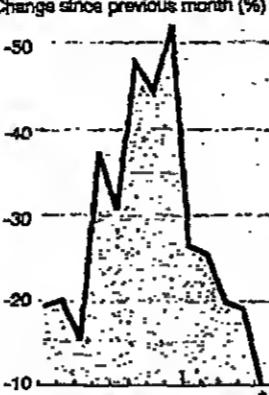
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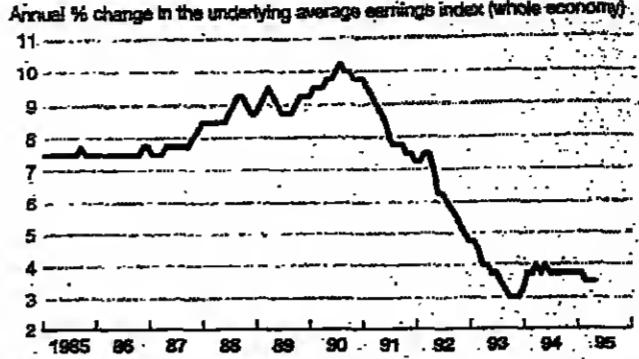
Unemployment

Change since previous month (%)



Pay rises on a low plateau

Annual % change in the underlying average earnings index (whole economy)



timously since the start of the year.

The figures, which come amid signs that job growth has also fallen, provide fresh indications that the British economic recovery may be easing. The Department of Employment said that the number of people claiming unemployment fell by a seasonally adjusted 10,000 between April and May, leaving the unemployment rate at 8.3 per cent.

Although this decline takes unemployment down to levels last seen in June 1991 - with a drop of 350,000 on the year - it was the smallest monthly decline since January 1994.

• The Trades Union Congress is becoming increasingly concerned that the economic recovery is slowing down, our Employment Editor writes. Mr John Monks, congress general-secretary, said yesterday that the latest employment figures were "dismal".

Ethnic minorities protest at change in business aid

By Simon Kuper in London

Ethnic minority organisations have suffered a drop in government funding since the Single Regeneration Budget was introduced last year, a report from the Black Training and Enterprise Group, a voluntary organisation, says today. The SRB includes 20 previously separate funding programmes worth a total of £1.4bn (£2.2bn).

The report focuses on bids for SRB funding in the Merseyside and the west Midlands areas of England. It says none of the seven "black-led" bids in the west Midlands won funding, while only one Merseyside bid mentioned any ethnic groups as main partners.

The report said ethnic minority organisations had trouble attracting SRB funds because they tend to lack the funds and time to assemble the complex bids the process requires.

Mr Santino Deng, co-ordinator of the Midland Refugee Council, said his council lacked the expertise to complete the compulsory business plan. It also found difficulty in submitting 10 copies of the bid of 30 pages each, as required.

The report says the municipal authorities and employer-led Training and Enterprise Councils, which lead most SRB bids in England and Wales, often avoid ethnic organisations as partners in the belief that they are unprofessional. Bid leaders either fail to consult them or consult them to to consult them or consult them to

Mr Javed Bashir, vice-chairman of the Keighley Asian Consortium in northern England, said: "There's never been a translation of SRB leaflets into any of the minority languages. Many of the organisations are very much in the dark about what kind of process the SRB is." He said many found out too late to submit bids.

Mr Javed Bashir, vice-chairman of the Keighley Asian Consortium in northern England, said: "There's never been a translation of SRB leaflets into any of the minority languages. Many of the organisations are very much in the dark about what kind of process the SRB is." He said many found out too late to submit bids.

Added to the £4.75 already paid per standard litre, farmers have earned on average 25.45p per litre, which Milk Marque

Farmers' co-operative wins 8% milk price rise

By James Harding in London

Milk Marque, the co-operative for farmers, yesterday said it had secured dairy producers an 8 per cent increase in the price paid for their milk in its first year of trading.

Dairy food processors, which have announced several thousand redundancies since the milk market was deregulated last year, have blamed Milk Marque's high prices for the turmoil in the industry.

For the first five months after it took over from the Milk Marketing Board, the former statutory monopoly, last November, Milk Marque reported pre-tax profits of £25.1m (£39.4m) on sales of £780.2m. The co-operative will pay 20.4m - or 0.7p per litre - as an end-of-year bonus to contributing dairy producers. Although this resembles a dividend, no tax is paid on it because it amounts to a further payment for supply.

Added to the 24.75p already paid per standard litre, farmers have earned on average 25.45p per litre, which Milk Marque

says is generally 3p per litre more than under the board last year. Mr Chris Melchers, Milk Marque's finance director, said the 0.7p profit distribution was possible thanks to tighter control of operating costs, down to 0.5p per litre compared with an estimated 0.7p per litre when milk sales were managed by the board.

Mr Andrew Dore, Milk Marque's chief executive, defended the increases in milk prices as a "one-off correction" because prices had been suppressed under the Milk Marketing Board. Under their scheme the Dairy Trade Federation had been a monopoly buyer, keeping prices for milk in the hotchpotch quarter of the European "league table".

Last year's price increase brought prices paid for UK milk into the top half of the table. In this year's bidding round, which starts when Milk Marque posts its benchmark prices next month, Mr Dore said he was "telling farmers to expect prices to stabilise". Milk Marque's exports to Belgium and France were evi-

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sharp falls in annual profits as

for the first time in 60

years, farmers have been able to work together in their own

organisation to establish a fair

market price for milk," he said.

Earlier this week Unigate and Northern Foods reported

sharp falls in annual profits as

as a result of provisions for com-

pany redundancies of some

4,000 dairy employees. They

have argued that Milk Marque has abused its near-monopoly position, buying two-thirds of all raw milk in England and Wales to ratchet up prices by 11 per cent. The price rises have eroded margins, particularly on doorstep sales, already strained by a fall of almost 50 per cent in demand over the past decade.

The Dairy Industry Federation, the buyers' representative and successor to the Dairy Trade Federation, has asked the Office of Fair Trading to investigate the market with a view to a referral to the Monopolies and Mergers Commission.

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NEWS: UK

UK NEWS DIGEST

Banks agree to heed warning on size of bonuses

The City of London's leading investment banks promised to heed warnings by the Bank of England, the UK central bank, that the bonuses they pay to traders and other executives are too high. Mr John Manser, chairman of the London Investment Banking Association, said the central bank was right to remind the boards of companies and senior management about pay. "Remuneration excessively dependent on short-term returns may create a bias towards risk which is undesirable."

Mr Manser, who is also managing director of Robert Fleming, said investment banks were addressing concerns about incentives by ensuring a component of pay which was linked to the long-term performance of the company. He was responding to indications of growing Bank of England concern about the perverse effects of some bonus systems. Mr Andrew Jennings, a bank official, said earlier this week the bank would prefer to see remuneration take account of the stability of profits, as well as their level.

Nicholas Denton and Gillian Tett

Chocolate bends for engineers

Chemical engineers at Cambridge University have invented a form of "flexible chocolate" that can be bent, twisted and tied into knots. Nestle of Switzerland, the world's largest chocolate company, is interested in the commercial aspect of the process. Mr Malcolm Blackley and colleagues made their discovery using high-pressure injection equipment for plastics. They put solid chocolate chips into a barrel and forced the material through a nozzle at pressure described as being equivalent to having "a full-grown elephant standing on your foot". The chocolate emerges as a flexible string which gradually hardens over an hour or so. Confectioners could use the technology to make intricate chocolate shapes impossible with the conventional process of moulding melted chocolate.

Clive Cookson, Science Editor

Rail bid from France

Managers at South West Trains, one of the first three state-owned train operating companies to be offered for sale, have teamed up with a large French transport group to stage a buy-out of their business. The management team has agreed a joint venture with CGEA, a company which runs rail services over 1,000km of track in France as well as operating 5,000 buses. It employs 12,000 staff. This is the first time that a management buy-out team has joined forces with a commercial company to make a bid for one of the British railway franchises. The buy-out bid, which is due to be submitted by May 28, will include an offer to all employees to become partners in the business. SW Trains, which operates in south-west England, is the largest of the three franchises on offer in the first wave of privatisation.

Charles Bachelor, Transport Correspondent

TV revenues estimated

Commercial television in the UK, in all its forms, is worth more than £3bn (\$4.7bn) a year, says the Independent Television Commission which has combined the figures for the first time in its annual report. The ITV network, the direct commercial opponent of the BBC, had revenues of £2.1bn and was the largest operator. On an individual company basis, however, British Sky Broadcasting, the satellite venture in which Pearson, owner of the Financial Times, has a significant stake, had the highest income. The biggest stake in BSkyB is held by Mr Rupert Murdoch's News Corporation. Total advertising revenue for commercial television was £2.057bn last year, 10.9 per cent up on 1993.

Raymond Snoddy, Consumer Industries Staff

Winner loses: The home of a winner of the top prize in the National Lottery was burgled while he was in hiding at a secret address to escape publicity about his £11m (£1.7m) prize. Police in the town of St Leonards in south-east England said an "untidy search" had been made of the flat belonging to Mr Mark Gardiner and a video recorder had been stolen.

Drugs crackdown: 12 people were arrested in simultaneous raids by 160 police in several towns in north-west England in an operation against an alleged international drugs and fraud empire. Drugs and equipment used in the manufacture of Ecstasy were found.

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In September Scientific American will be publishing its most important single-topic issue yet, *Key Technologies for the 21st Century* which will give advertisers an unparalleled opportunity to reach some of the most influential decision makers in the world who explore major issues, shape policy and manage change.

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Gerry Adams says British are making unacceptable demand for 'surrender' of weapons by IRA**PM to meet Clinton on Ireland deadlock**

By John Kampfner at Westminster and John Murray Brown in Dublin

towards healing a rift over Northern Ireland policy.

Both sides acknowledged that Mr Clinton, in a speech at an Irish investment conference last month, moved closer to the British line that the IRA must begin "decommissioning" its weapons before full talks with Sinn Féin could begin.

That conference was dominated by a meeting and handshake between Sir Patrick Mayhew, chief Northern Ireland minister in the British government, and Mr Gerry Adams, Sinn Féin president.

Since then, however, little progress has been made, with the UK government making clear it is for Sinn Féin to move on the arms issue. Mr

Mr Gerry Adams alleged in *The Irish Times*:

- There are approximately 16,000 members of the British army still involved in military operations.

- There are massive military encampments throughout the six-county statelet [Northern Ireland].

- There are 13,000 heavily armed members of the RUC [the Northern Ireland police], a para-

military force which has acted as the armed wing of unionism and which is totally unacceptable to the nationalist community.

- There are an approximate 120,000 licensed weapons, most of them in the hands of the unionist [pro-British] community.

- The British government has made no move to deal with the reality that there are hundreds of political prisoners held in British jails."

he wants to visit Ireland, north and south, in the coming months. But his officials have been unable to agree dates with the British and the trip is now unlikely to take place before November.

Both sides denied that the problem was anything more than a question of scheduling.

"There is absolutely no political flavour about this," said a US official. Mr Clinton, he said, intended to visit Dublin, London and probably Belfast. "We have smoothed over the scar tissue," said a US official.

"There is certainly concern at the pace of events, it seems that some aspects have reached an impasse, but this is not directed at the British."

Buyer of shipyard sells offshoot to Dutch group

By Chris Tigha in Newcastle upon Tyne and Ronald van der Krol in Amsterdam

The company which on Monday bought the main Swan Hunter shipyard in north-east England has sold its own nearby fabrication facility to a Dutch company.

THC Holdings (UK), which bought Swan Hunter's yard a week before the entire contents were to be auctioned, has sold its main subsidiary, THC

Fabrication, to Heerema Fabrication Group. THC Holdings is based in Jersey, largest of the Channel Islands between England and France.

Mr Glen Wilson, THC's commercial manager, said it was pure coincidence that the yard purchase and the sale of THC's facility had occurred on successive days, but he conceded the timing was "bloody lousy". Negotiations with Heerema started almost a year ago, he said. "We had decided not to sell but they came back to us again."

Mr Wilson declined to disclose the sale price. Heerema Fabrication Group, based in Zwijndrecht near Rotterdam, said the company had paid "several tens of millions" of guilders. Mr Wilson, a key figure in THC's negotiations to acquire the Swan Hunter yard, said the sale of its own facility did not affect THC's plans for the yard. The deal would allow THC to concentrate on revitalising the shipyard to cater for the expanding new market for floating oil production

platforms. Heerema and THC are discussing possible future co-operation to develop Swan Hunter for the construction of floating production storage and offloading vessels. Mr Wilson said: "Rather than jeopardise the capability of the project, it will be further enhanced by Heerema's strength as a major contractor in our industry."

THC already has Dutch links - its managing director is a Dutchman, Mr Jan Veldhuijzen, and its majority shareholder, whom Mr Wilson declined to name, is also Dutch.

Heerema Fabrication is part of Heerema Offshore Construction Group, a privately owned Dutch company. The main Heerema group, which is based in Leiden, is active in offshore construction and heavy-lift shipping. It has a worldwide workforce of more than 4,000. THC's Harlepool facility will complement existing Heerema yards in Norway and the Netherlands.

**SPOT THE REFUGEE**

There he is. Fourth row, second from the left. The one with the moustache. Obvious really.

Maybe not. The unsavoury-looking character you're looking at is more likely to be your average neighbourhood slob with a grubby vest and a weekend's stubble on his chin.

And the real refugee could just as easily be the clean-cut fellow on his left.

You see, refugees are just like you and me.

Except for one thing.

Everything they once had has been left behind. Home, family, possessions, all gone. They have nothing.

And nothing is all they'll ever have unless we all extend a helping hand.

We know you can't give them back the things that others have taken away.



United Nations High Commissioner for Refugees

We're not even asking for money (though every cent certainly helps).

But we are asking that you keep an open mind. And a smile of welcome.

It may not seem much. But to a refugee it can mean everything.

UNHCR is a strictly humanitarian organization funded only by voluntary contributions. Currently it is responsible for more than 19 million refugees around the world.

UNHCR Public Information
P.O. Box 2500
1211 Geneva 2, Switzerland

Photo courtesy of The LEGO Group

Bernard Hooper is looking for the end of the commercial rainbow at Halfpenny Green airfield. In dishevelled second world war buildings in the countryside west of Birmingham, where the sound of light aircraft mixes with the noise of his engines, he is working through the problems of creating a new diesel engine for the small cars of the next century.

Around the world there are many small – and even not so small – engineering concerns and inventors exploring alternative combustion technologies and engine concepts. Almost without exception they have found the task of producing engines with a genuine competitive advantage over conventional petrol and diesel units both long and frustrating. No important car maker so far has seen fit to use one.

Despite this, Hooper and his backers believe their time may have come, on the grounds that even the current crop of small, high-revving four-stroke diesels fitted to cars such as the Ford Fiesta and Citroen AX will prove too big and heavy for forthcoming generations of ultra-lightweight small cars.

Size for size, current four-stroke diesels are inevitably heavier than their petrol counterparts because the block and cylinder head have to withstand combustion chamber compression ratios almost double those of a petrol engine. Add valves, camshaft and the camshaft drive components needed on any four-stroke engine, and fitting such a unit under the bonnet of the ultra-small cars of the future will undoubtedly prove tricky.

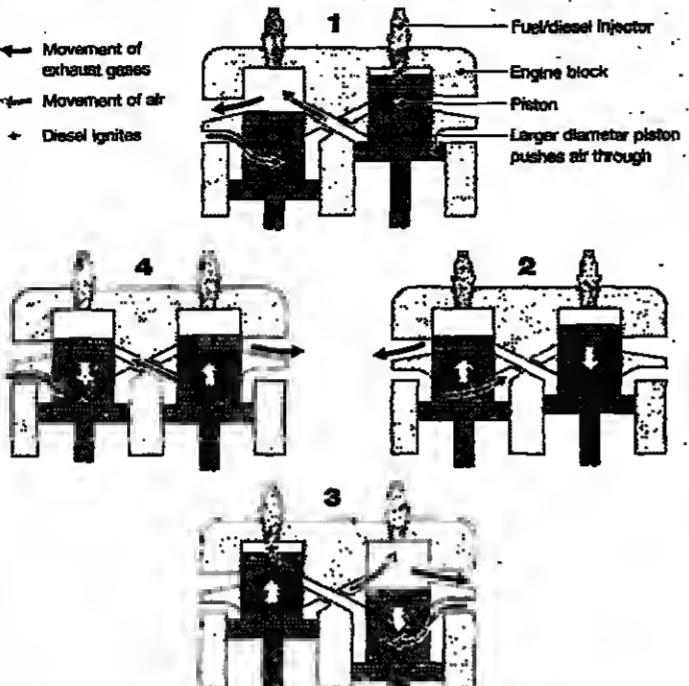
In addition, diesels are facing trouble meeting tighter exhaust emission standards planned for later this decade, and will almost certainly require an exhaust catalyst.

Hooper, his son Peter and a small team of technicians maintain that all these problems can be overcome by the engine they are developing. It is a two-stroke with a stepped piston design which, in the ideal world that has so far failed to materialise for so many engine innova-

Stepping forward

John Griffiths and Paul Cheeseright on a possible breakthrough in two-stroke engine design

Blueprint for a new diesel engine



Source: Bernard Hooper Engineering

tors, they would like to see in mass production within 10 years.

The technical crux is to achieve compact, low-exhaust emissions, low fuel consumption and high durability and no diminution of performance.

There are several counts on which the Hooper engine might prove interesting to car makers. One is the very fact that it is a

two-stroke. This dispenses with valve gear and its weight and size penalties, as well as making the engine easier and cheaper to make. Providing twice as many firing strokes as a four-cylinder, the engine should also give smoother and relatively powerful performance.

But vehicle makers from Toyota to Volkswagen have already built prototype two-strokes in petrol and

diesel form. It is the Hoopers' extra ingredient, the stepped piston design, which is claimed to get round the big, age-old problem with the two-stroke that is partly responsible for unacceptable high emissions of oxides of nitrogen.

"The Achilles Heel of the two stroke engine is that all fuels go through the crankcase," says Hooper. "They are transferred to the cylinder. You cannot separate the lubrication from the combustion, so the oil ends up in exhaust. If you cut the oil down, the engine fails. The stepped piston engine separates the lubrication from the breathing, the combustion. So you

The stepped piston engine is of simple design with a small number of individual components. It has two diameters, the smaller being effectively a normal piston as used in a conventional ported two-stroke engine. The larger diameter section, at the bottom of the piston, acts as the compression piston. The intake charge is drawn into the annular space controlled by reed valves. These valves close automatically when the piston reaches bottom dead centre and is on the point of rising again. The intake is discharged through ports into the combustion chamber of the other cylinder, scavenging exhaust gases in the process. This continues until the exhaust ports are closed by the rising piston and compression begins.

can use lubrication without causing emission problems."

Hooper, formerly chief designer of Villiers Engineering, has been working on stepped piston engines for nearly 30 years. The idea itself dates back to the first world war but, like many other alternative engine concepts, it went undeveloped for decades. Hooper, who holds a clutch of patents, licensed the technology to Norton Villiers, the motorcycle group, during the 1970s. Lately, he has worked on government contracts.

The stepped piston work is backed by the Dunlop, a Scottish

family with whisky interests. Since 1982, the Dunlops have held the licensing rights for the new engine. Nicholas Dunlop is now working full time for Stepped Piston Engines, which aims to see the engine brought into production. Dunlop's aim is to bring the engine into the automotive mainstream.

Dunlop talks of a co-operative arrangement with Bosch of Germany on injection systems, of talks with Lucas, the UK group with its own diesel injection system, of discussions with the piston producer group of T & N, another UK group, and of some form of intellectual property sharing with AVL, the Austrian consultancy. Engine technology is a field where the industry likes to keep its lines of communication open.

But the experiences of other aspiring engine "breakthrough" concerns, such as Australia's Orbital Engine Company and Sonex of the US, underline the challenge facing Hooper. The Orbital two-stroke engine concept has been

licensed to a number of car makers for several years, and as recently as three years ago Ford was indicating that there would be Orbital-engined Fiestas on the road by the mid-1990s. Emissions-related problems have pushed that possible introduction to near the end of the decade.

Orbital is already a large, respected company with its engines – in other applications such as marine – in current production. Yet it, too, has found that when it comes to cars and the complex legislation that surrounds them, it is a very long road indeed between concept and commercial production.

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Lord Butterfield summed up the committee's views: "We commend the government for putting in place the NHS R&D strategy but we are anxious about the operation of that process lower down the management line." More junior managers were still liable to regard research as a costly burden on scarce resources.

Culturing mammalian cells

Scientists in Switzerland have developed a technique for culturing mammalian cells which could make it easier to manufacture certain protein pharmaceuticals, such as monoclonal antibodies.

The Swiss Federal Institute of Technology in Zurich used genetic engineering to modify

mammalian cells so they can grow without added protein or animal serum. The technique is being commercialised by Cytos Biotechnology of Zurich.

Portable surface penetrating radar

Surface penetrating radar equipment has been used to detect

Worth Watching · Vanessa Houlder



buried objects in applications ranging from murder investigations to finding plastic mines.

Advances in computing power have allowed Era Technology, a contract research organisation based in Surrey, to launch a compact version that can be handled by a single operator.

Applications of the Superscan equipment, which costs from £29,500, include surveying, pipe laying and archaeology.

The advantage of using radar, over other techniques, such as ultrasound imaging, is that the equipment does not have to be in physical contact with the material being tested, which allows it to be scanned quickly.

Era Technology: UK, tel (01372) 357000; fax (01372) 357099

Telephone direct in the air

Jetphone, Europe's first direct air-to-ground telephone service, is being launched this month by BT and France Telecom.

The telephones have been installed on aircraft of British Airways, Air France, Air Inter and SAS.

The system uses digital radio links from the aircraft to ground stations, from which calls are routed via national telephone networks. The cellular technology is cheaper and simpler than the ground-based laser beams.

Leica: US, tel 310 7915300; fax 310 7916108

Culturing mammalian cells

Scientists

in Switzerland have

developed a technique for culturing mammalian cells which could make it easier to manufacture certain protein pharmaceuticals, such as monoclonal antibodies.

The availability of the dye, which is being produced by Amersham International, will allow researchers to investigate several aspects of cells simultaneously by staining individual molecules using separate dyes.

The cyanine dyes have the advantage of operating in the red part of the spectrum, which avoids confusion with the natural fluorescence of cells which occurs in the blue and green part of the spectrum.

Amersham International: UK, tel (01494) 542055; fax (01494) 542058

Fluorescence labelling spectrum

A cyanine-based dye has been developed that completes the spectrum of colours available for fluorescence labelling – a method of identifying molecules in biological research.

The availability of the dye, which is being produced by Amersham International, will allow researchers to investigate several aspects of cells simultaneously by staining individual molecules using separate dyes.

The cyanine dyes have the advantage of operating in the red part of the spectrum, which avoids confusion with the natural fluorescence of cells which occurs in the blue and green part of the spectrum.

Amersham International: UK, tel (01494) 542055; fax (01494) 542058

More history

Dance Cleo
Featherston
'Go Las'

Health warning for UK's medical research

The UK National Health Service has long been the envy of the world's medical scientists for its excellence as a research platform. That excellence is threatened by the government's market-oriented NHS reforms, the science committee of the House of Lords, Britain's second chamber, says in a report today.

"The market... is already doing serious damage to medical medicine and particularly to curiosity-driven research," the report says.

The Lords deplore the wall of accounting that now divides health-care from research. "We predict

that the cost of separating the scientist from the clinician will be high, both in transaction costs and in the creative interactions which will not take place at all because people cannot tolerate the artificiality of costing and accounting for them."

But the report takes a more optimistic view of the future, because

the government is beginning to implement an R&D strategy for the NHS, which compensates for the damage being done to long-term research by the short-term demands of the market.

The Lords say prospects for applied and clinical research in the NHS will be bright if the government implements the recommenda-

could lose out as a result of the government's growing emphasis on applied research and development and "wealth creation".

Lord Butterfield summed up the committee's views: "We commend the government for putting in place the NHS R&D strategy but we are anxious about the operation of that process lower down the management line." More junior managers were still liable to regard research as a costly burden on scarce resources.

Clive Cookson
Medical Research and the NHS Reforms, HMSO, £18

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ARTS

Cinema/Nigel Andrews

More well-dressed historical bio-tosh

Jefferson In Paris is a title with a horrible fascination. It is trying not to be "Young Jefferson" - or in this case "Middle-aged Jefferson" - while promising us much the same bill of kitschy biographical goods. See the Famous Historical Person at work at play! Watch him fall in love! Hear him fashion his quotable quotes! Transplant him to exotic climes where he can interact with foreign manners and fabulous backdrops!

Even since Zeffirelli's lavishly upholstered *Young Tosca* (1988) sank without trace, taking with it Elizabeth Taylor and the entire Rome Opera company, film-makers have been wary in handling potential bio-tosh. But is it not the answer? In reading as carefully as director James Ivory does here, flanked as ever by producer Ismail Merchant and screenwriter Ruth Prawer Jhabvala, he still provides tosh - it is merely well-managed tosh.

Ivory's Thomas Jefferson (Nick Nolte) is a mature man with a deceased wife and grown children. He has already written the American Constitution. And judging by Nolte's craggy, impassive performance - eyes gazing into the distance, features marmoreously creased - he has just finished sitting for his Mount Rushmore carvers.

Almost none of this makes any impact on us at all. We have to ask would Ivory have made this movie if it were not about a Famous Historical Person? Since the giant irony inherent in the contradiction between Jefferson's championing of democracy and his slave-owning concupiscence, while noticed, hardly seems to detain our film-maker, we suspect the only reason we are watching

"Jefferson in Paris", rather than Smith or Pootier or A.N. Other, is historical groupy-ism. Like many bio-pics - certainly like all bad ones - this film ends up as little more than two hours of costumed autograph-hunting.

These surrounding bits of colour only emphasise the monochrome people in the middle. Jefferson's private life wanders wanly between plots: from his daughter's consignment to a Catholic convent to his romance with painter Greta Scacchi. Since Scacchi offers

JEFFERSON IN PARIS
James Ivory

RICE PEOPLE
Ritty Pahn

BAD BOYS
Michael Bay

SILENT FALL
Bruce Beresford

FUN
Rafal Zielinski

only an ironic simper for a characterisation, we are not surprised when she in turn is sidelined for a pretty black slave girl (Thandie Newton) who will go to bear - the years-later framing story tells us - small, coffee-coloured Jeffersons.

Elsewhere Hollywood is in full cry, readying itself for the summer silly season. In *Bad Boys* two young black cops run around Miami playing Mutt and Jeff while the city disappears into flames and car chases. Played by two American television stars, Will Smith and Martin Lawrence, our heroes must protect a beautiful murder witness (Tea Leoni)

from dangerous hoodlums. Meanwhile ex-commercial director Michael Bay shuffles his coloured filters, and an escaped music system with runaway volume control seems to be roaming the auditorium.

The film is so formulaic that we can only suppose that it was dreamt up over a power breakfast; even a power elevenses inventiveness creeps in only in the subplot which has the two men swapping identities, so that the girl thinks the married one is single and the single one is married. This may not sound hilarious, but it produces one or two comic complications and in *Bad Boys* we are grateful for anything.

In *Silent Fall* psychiatrist Richard Dreyfuss is asked to mine the mind of an autistic murderer. Nine-year-old Tim saw his parents hacked to death in their bedroom. "Give me a murderer, Jake," the Sheriff asks Dreyfuss, "or I'll have to use Harlinger's magic potion on the boy."

Harlinger? He is a drug-rival shrink, muggingly played by John Lithgow as if he has wandered in from another film. But then everyone behaves here as if they have wandered in from another film: pugnacious Dreyfuss from previous shrink duty on *What About Bob?*, scowling Linda Hamilton as his wife from *Terminator* employment, and director Bruce Beresford

from a career that has seen sawed between the ridiculous (*King David*) and the sublime (*Tender Mercies, Drifting Miss Daisy*). Here, as ineffectual suspense scenes jostle with advanced psychobabble, we could be in a bad TV movie. "*Echolalia*" is the jargon piece de résistance provided by debut screenwriter Akiva Goldsman (son of two child psychologists) - a condition which in the boy takes on the form, the film tells us, of imitating junk television. The condition is obviously infectious. *Silent Fall* falls somewhere between Perry Mason and a "problem of the week" drama. Rafal Zielinski's *Fun*, from Canada, tries hard to break the

murder movie mould. Two girls (Alicia Witt, Renée Humphrey) are arrested for the senseless, "fun" killing of an old lady. Alternating scenes are shot in documentary black-and-white (present) and colour (past) between the girl's arrest and interrogation and the events leading to the murder. At worst the film plays like a sorority night *Natural Born Killers*: an all-girl sordid into exploded style and imploded morality. At best - whenever it slows down - it shows the grimmer, unfunnier side of what 'affectlessness' in the face of violence which Messrs Stone and Tarantino have found such an intoxicating giggle.

But the music itself cast an entirely different spell. His playing was characterised by a beautifully polished sound, great clarity of execution, strict fidelity to the composer, and a high degree of awareness of harmonic subtleties. That is why he was so successful with Schumann, Debussy and Ravel; his *Gaspard de la Nuit* was matchless. He was not the most memorable of Chopin interpreters, because he was not one for freedoms, excesses, vibratos, or any outburst of spontaneity - the very opposite of a Rubinstein. Michelangeli was an ascetic, and he played the way he was - with a seemingly unshakable aristocratic reserve.

Born in Brescia on June 5 1920, Michelangeli studied at the Milan Conservatoire and won the International piano competition at Geneva in 1939. His performance of Beethoven's Fifth Piano Concerto at La Scala, Milan shortly after the end of the war was judged a sensation, and it launched his international career. He made his London debut in 1946, and continued to perform there irregularly until 1950. His concerto performances were even rarer than his recitals, because he would only collaborate with a handful of conductors - among them Celibidache and Giulini.

He lived in southern Switzerland, and taught privately and at the conservatoire in Bolzano. He leaves a small legacy of recordings, chief among them the video of his 1982 London performance of the Ravel G major concerto - which he also recorded memorably for EMI in the early 1960s.

Andrew Clark

Concerts in London/Adrian Jack

Celebrating Perlman, American composers and rare Strauss

strings almost unnecessarily discreet in the first movement, for Perlman's sound was huge, and seemingly effortless. Technically, the performance was immaculate. Yet it was also straight to the point of being plain, without the least sign of an individual way with a phrase. When Perlman encounters an accidental snag, he winces slightly. But here there were no accidents and Perlman obviously felt good throughout the cut and thrust of the finale. Every challenge brought a smile to his face, as if to say, no problem.

The Royal Philharmonic Orchestra's programme of American music at the Barbican last week was chosen for qualities of colour, evocative warmth and nostalgia. Walter Piston is best remembered as a teacher and writer of text books, yet his music for *The Incredible Flutist*, originally performed as a ballet in 1938, is sweet, his style chaste but also just a bit too impersonal. I was not moved until attention was focused on his technical mastery in Kreisler's cadenza in the first movement, and Perlman brought off the busy cadenza in the finale brilliantly.

On Tuesday, with Yoel Levi conducting, Perlman played Mozart's Concerto No 3 in G and Brahms' Concerto. Mozart's concerto is perhaps the loveliest of all five that he wrote. Yet it was in the much more difficult Brahms that Perlman showed his true mettle. Levi kept the orchestral

entertaining genre pieces, including a rowdy depiction of a circus arriving in which the orchestra players suddenly break out shouting, one of them even snapping like a dog.

Piston's suit was mirrored at the end of the concert by Gershwin's still noisier *An American in Paris*, whose jump-cut discontinuities were confronted frankly by the conductor Andrew Litton. The least descriptive music of the evening was the Concerto for clarinet, string orchestra, harp and piano, which Aaron Copland wrote for Benny Goodman. The wide-arched pastoral phrases of its first movement contrast satisfactorily with the breezy syncopations of the second, and Emma Johnson, playing from memory, pitched into both with obvious feeling.

The style of personal address was strong, too, in Sylvia McNair's lovely, crystal-clear singing of Samuel Barber's *Knoxville* - a hitherto sweet reverie broken by a central interlude depicting the jarring sound of the streets.

The following evening the 23-year-old American Gil Shaham was the very slick soloist in Prokofiev's First Violin Concerto with the London Symphony Orchestra under André Previn. If Shaham's tone was inebriuous, his articulation and timing were absolutely certain; the performance was just a bit short on the final element of devilry because of Previn's tame accompaniment.

But the orchestra had its fun in Richard Strauss's *Symphonia Domestica*, probably the least often performed of all his orchestral showpieces, which inflates the daily events in the Strauss household out of all proportion to their very ordinary character. If the effect is mock heroic, Strauss's intention was almost certainly not ironic, though enjoyment of his virtuoso juggling of ideas and forms can be enhanced by spotting the echoes and pre-echoes of his other works. One of the most interesting sections in *Symphonia Domestica* is the least literally descriptive, for it represents sleep and the muddled images of dreams. Later, towards the end of the work, there is a succession of surefire tricks - multiple horn flourishes, a trumpet fanfare tostissi high over the full orchestra, a shocking silence, which is then broken by all the violins swooping in unison - which are all thrilling. They were all brought off with bravura here, and the players looked justifiably proud and pleased at the end. They perform two more Strauss extravaganzas, *Don Quixote* and *An Alpine Symphony* on June 15 and 16.

Further Perlman concerts tonight and Saturday. The Royal Philharmonic Orchestra's concert was sponsored by American Airlines.

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Majestic to the eye, but sedative to the mind: Nick Nolte and Thandie Newton in *Jefferson in Paris*

Obituary

Arturo Benedetti Michelangeli

There was no greater perfectionist than the Italian pianist Arturo Benedetti Michelangeli, who has died in a Legnano hospital at the age of 75. He was one of the supreme pianists of our times, but his uncompromising approach to his art made him an introvert, a man who regarded public performance with extreme distaste. The rarer his performances, the more bronbana they generated - of the kind Michelangeli hated. He became increasingly reclusive, and gave his last recital in 1982 to Zurich.

Perfectionism was the key to Michelangeli's greatness. He had the highest possible artistic goals, and he pursued them with the utmost skill and dedication. He was an interpretive fanatic, giving everything the importance and shape he thought it deserved. It was a very planned style of playing, but it was planned to the highest degree of musical and technical perfection.

Anyone lucky enough to have attended a Michelangeli recital or concerto performance is unlikely to forget it. First, there was the element of suspense surrounding any Michelangeli appearance, because he was a notorious canceller - calling off at the last moment or even interrupting a recital because of some perceived disturbance. Then there was his platform persona - wandering towards the piano as if still in two minds about cancelling, reluctant to acknowledge his audience, and bearing a permanent expression of weary melancholy.

But the music itself cast an entirely different spell. His playing was characterised by a beautifully polished sound, great clarity of execution, strict fidelity to the composer, and a high degree of awareness of harmonic subtleties. That is why he was so successful with Schumann, Debussy and Ravel; his *Gaspard de la Nuit* was matchless. He was not the most memorable of Chopin interpreters, because he was not one for freedoms, excesses, vibratos, or any outburst of spontaneity - the very opposite of a Rubinstein. Michelangeli was an ascetic, and he played the way he was - with a seemingly unshakable aristocratic reserve.

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Andrew Clark

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The 'outsider' version of history



I suppose it is inevitable that anyone writing their memoirs is bound to indulge in a certain rewriting of history.

BOOK REVIEW This book is no exception. Baroness Thatcher felt a number of things must be put right by writing; in typical spirit it never dawned on her that her interpretation might be wrong.

All through her political career she appears to have been in opposition. "The inevitable loneliness of power has been exacerbated in my case by the fact I so often had to act as a lone opponent of the processes and attitudes of government itself," she says. "In the government I myself headed, I was often portrayed as an outsider." I dare say a large number of close colleagues will remember the occasions when she talked of government or party policy as if it had nothing to do with her.

As shadow employment spokesman during the years when she led the Conservatives in opposition between 1975 and 1979, I had many disagreements with her over the conduct of policy on the trade unions. The party's defeat at the polls in 1974 had been largely over the issue of trade union power after the debacle of the Industrial Relations Act. I felt we must be careful in our commitment to legislation and to the more normal Conservative reaction of union bashing. Margaret was in favour of this approach just so long as it did not exclude her from talking passionately about the freedom of the individual and adherence of the closed shop and hence union recognition. In view of what she says in the book about our relationship, it is more than a little surprising she kept me in the shadow cabinet at all, let alone gave me a place in the 1979 cabinet.

As ever, she was more cautious in her actions rather than her words. The influence of other more experienced shadow cabinet members counted for more than the more strident views of ideological allies such as Sir Keith Joseph. Her views on the level of

THE PATH TO POWER

By Margaret Thatcher

HarperCollins £5.00, 656 pages

public expenditure were very strong. She is at pains to describe the mistaken policies of all postwar UK governments, particularly Conservative ones which should have known better. She is contemptuous of the records of two of her predecessors: Harold Macmillan and Edward Heath.

Yet in the Heath government she and Sir Keith Joseph were not only the big spenders they constantly demanded more. She recounts with understandable pride how she persuaded both Edward Heath and his cabinet to give her "almost everything I wanted for the school building programme". Her disavowal of her own (and Sir Keith's) past profligacy was one of the causes of the subsequent bitterness with Edward Heath.

The second part of the book purports to deal with the period after she ceased to be prime minister. In fact, it is much more an account of her well-known views on a range of issues such as Bosnia, the Maastricht treaty, sterling's withdrawal from the Exchange Rate Mechanism, and public expenditure.

On the European Union and Maastricht she states she "has fought many battles", but fails to admit that in the end she lost most of them. I remember well her saying she would not rest till the Common Agricultural Policy was destroyed, but 16 years later it is still very much alive.

Maastricht she terms a treaty too far. However, her record suggests she would have accepted the treaty at the end of the discussions - and most probably won fewer concessions than John Major, because of her stridency.

She relaunches the idea of the North Atlantic Free Trade Area to encompass North America and Europe including the eastern European states. The knowledge that neither the US nor our European partners

are interested is no deterrent and one is left with the overwhelming impression that she is returning to her anti-EU posture.

However, despite all my disagreements with her over policy, I believe she handled the difficult task of leader of the opposition with skill. She always displayed great loyalty and consideration to her secretaries, nannies and friends - as also to her colleagues in the shadow cabinet, only a few of whom were her supporters.

Her convictions were always strong and her capacity to absorb briefs down to the minutest detail phenomenal. I never knew her come to a meeting without a sound knowledge of the subject under discussion. The problem was much more one of restraining her until the initiator of the paper had finished.

I found the account of her childhood and upbringing most interesting and rather moving - and much too short. But it is possible to understand much better what gave her the ambition and the convictions to succeed and to become the longest-serving prime minister this century. Her love for and dependence on Denis, her husband, shows through in chapter after chapter and no one will gainsay how lucky she was to have him, and how well he has played his part.

I presume this is the last volume of her memoirs, and now history must be left to decide the weight of her considerable contribution. Lady Thatcher believes socialism has been defeated once and for all and this is her proudest achievement. I hope she is correct, but in her praise for Tony Blair, the Labour leader, is she not just extolling the virtues of One Nation Conservatives? It would be an odd twist of fate to create a new One Nation party when you have destroyed your own.

Lord Prior

The reviewer was a cabinet minister under Sir Edward Heath and Lady Thatcher. He is chairman of the General Electric Company, the defence and electronics group.

The link between money and prices is about the oldest proposition in economics. But the correct statement of that link has proved elusive and the distinguished contributors to a new symposium differ widely. (*The Quantity Theory of Money*, Edward Elgar, £39.95).

The contributions begin with an account by Walter E. Elstis of how John Locke, the English philosopher, used the Quantity Theory to put England on a sound money basis 300 years ago. Among other contributors, Mark Blaug writes on the logical issues raised; and Geoffrey Wood draws morals from the very limited success of the 1800 monetarist experiment.

The original Quantity Theory of money was designed for a gold standard world. It first flourished in the 18th century when gold and silver discoveries in the new world led to price inflation in Europe. It was used to denounce the notion that a nation's wealth depended on the amount of precious metals it had.

At a national level, an increase in the amount of gold or silver would leak out to the rest of the world through the balance of payments. At a world level (and the world was for practical purposes France, Spain and Britain), a doubling of the amount of gold would eventually be dissipated in an approximate doubling of prices measured in gold units.

The moral was that a country wanting to prosper had to rely on its own industry, enterprise and thrift rather than on ingenious devices for getting hold of more bullion. The theory also cautioned against policies such as issuing large amounts of paper money or clipping coins, all of which amounted to the imposition of an inflation tax by the sovereign on the people.

The same logical apparatus could be applied in the gold standard world of the 19th and part of the 20th century. It is only since the last links with gold were broken that monetarism has come into its own as a proposal for controlling the amount of fiat money (that is, manmade currency not convertible into anything intrinsically valuable).

This whole branch of thinking could be made less arcane and brought nearer to ordinary experience by asking a few simple questions. How much is a household likely to spend? The instinctive response of many will be: "It depends on how much money it has."

This is apparently game, set charted on blackboards. Monetarism suggests Tory wets shaking their heads at the excesses of early Thatcherism without any particular ideas about monetary policy in mind. But there are some crossovers. For instance, modern monetarists are more aptly described as monetarists than practitioners of the quantity theory. To complicate matters, Friedman is both.

Is there any difference between the quantity theory of money and monetarism? The quantity theory conjures up a vision of rustling academic gowns and long time series

and match to the monetarists. But explore a little deeper. By this answer, people do not literally mean how much cash and bank deposits they hold. They are more likely to mean some combination of their regular income and their wealth in the form of houses, financial assets and so on.

The monetarist then has a more difficult task - to show that large changes in nominal income or wealth ultimately depend on the behaviour of the banking system, which is in turn under the influence of official policy. This is more difficult, but possible.

More needs to be said. Surely if people are optimistic and full of animal spirits, they will try to borrow more and spend more, for any given level of income and wealth. If, as now, they feel pessimistic and depressed, and aggressively disposed towards business, they will fight attempted price increases by shopping around rather than by borrowing from banks. Why deny that this modus vivendi has influence?

What monetarists need to assert is that central banks can stop either mood from going to excess. The power arises from the fact that commercial banks tend to keep reserves with central banks. The latter can by their own lending and borrowing operations increase or decrease the quantity of these reserves and thus increase or reduce the ability of banks to lend.

Where there is a danger of a deep recession it may not be enough to supply commercial banks with reserves on easy terms. There may be a case for scattering money to the people, either by dropping it from helicopters, as Milton Friedman proposed, or by burying it in the ground and leaving it to the profit motive to dig it up, as Keynes once suggested.

Is there any difference between the quantity theory of money and monetarism? The quantity theory conjures up a vision of rustling academic gowns and long time series

ECONOMIC VIEWPOINT

Achieving stability

By Samuel Brittan



prices was not only subject to lags, but held good only on average. The implication surely is that if the money supply is sensibly regulated there will still be quite pronounced fluctuations in inflation from year to year, but money will retain its value over a period of years. Today's pound or Ecu will not be very different from the pound or Ecu in a century's time.

Wood uses this argument to give a very condensed warning about the present fashion for narrowly drawn up short-term inflation targets. Year to year stability in the rate of inflation may not be possible or even desirable; thus present fashions in inflation targets may come to the same grief as the strict monetarism attempted a decade ago.

What are we left with? We need some method of allowing the economy to breathe, that is to allow the inflation rate to vary from year to year without taking off into the stratosphere. Geoffrey Wood comes nearest to this approach when he cites the proposal of Bennett McCullum, a US monetary writer, that central bankers should vary the growth rate of the monetary base "in response to deviations of nominal gross domestic product growth from some desired rate". That rate should be "the economy's trend real growth rate plus some modest inflation".

At least the signals then point in the right direction. Policy is aimed very severely against inflation in times of growth and becomes stimulatory in a recession. But the authorities do not have to answer impossible questions such as "Is excess capacity above or below the safety level?" Nor is there any reason why central bankers should go mechanically by the past. They can, for instance, take into account such forward-looking information as they can find from financial indicators such as bond rates, commodity prices and exchange rates.

The approach through nominal GDP has so far not won favour with policymakers because it has been treated as another technocratic gimmick and not as an intellectual tool for use in the medium term. But a fresh start is nevertheless required with less accumulated intellectual baggage and more openness to common sense.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171 873 5338 (please set fax to 'fine'); Translation may be available for letters written in the main international languages.

Subsidised art leads to narrower choice

From Mr David Sawers.

Sir, Michael Prowse omitted one argument against subsidies for the arts in his assault on this misuse of taxpayers' funds ("Shakespeare didn't need a subsidy", June 12). Subsidised art tends to drive out un subsidised art so the choice of art available to the consumer will be narrowed. The development of the arts is all the more likely to be determined by the tastes of those who dispense the subsidies, and the commercial sector becomes increasingly limited to popular works that the subsidised sector spurns.

In the UK, new productions of plays are increasingly financed, wholly or in part, by the subsidised sector because it has access to free money, and partnerships between commercial and subsidised companies therefore increase the potential profitability of any venture.

The beneficiaries from the system claim that this development shows that the theatre cannot exist without subsidies, although it merely demonstrates that businesses use the cheapest source of capital. Subsidised companies can thus

largely determine what plays get produced in the UK.

In the US, subsidy does not have this influence over the arts. But the publicly supported television that Michael Prowse enjoys was blamed for the failure of the privately financed arts channels a decade ago: few viewers were willing to pay the substantial subscriptions demanded by the arts channels when public service television was free. In the UK, the existence of the tax-financed BBC similarly hampers the development of commercial arts channels; and the commercial services offer something different from the subsidised sector spurns.

Intellectuals on both sides of the Atlantic can then agree that commercial television is appalling, and only state finance can provide a decent service. But eliminating state finance might provide them with a better service - as well as enriching the taxpayers.

David Sawers,
"Crosby",
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Angmering-on-Sea,
Littlehampton,
West Sussex BN16 1PP, UK

Priority of G7 countries should be to put their economic houses in order

From Mr Rahmi M. Koç.

Sir, The most urgent problem facing the G7 summit is the currency turbulence that is playing havoc with corporate investment and profit margins.

In our annual statement to the summit handed over to the Canadian prime minister in Ottawa last week, the International Chamber of Commerce said the best means open to the seven governments to restore stability in currency markets and promote solid world economic growth is for each to put its own economic house in order. Priority number one is to correct the financial imbalances that are at the root of the present currency instability.

Who should do what? The impression is that the US Congress is still bent on cutting taxes rather than expenditure has unmet financial markets. What the US should do is take firm measures to reduce its savings rate and tackle its chronic current account deficit. And while Canada has been taking steps in the right direction, there is also still too much red ink in its accounts.

Japan is not a passive victim of the rising yen. For too long its economy has been over geared towards exports. It has only itself to blame for the

slow pace of deregulation which is preventing its economy from adapting to the new world of the 1990s. That needs changing fast.

In the European Union, the principal failure is endemic unemployment, which has been getting worse with every business cycle. The welfare state is fine for those in jobs, but is less attractive when it becomes an impediment to job creation. A bold approach is needed to loosen rigid labour laws and practices, tackle distortions of wage differentials, reduce regulation of business, and bring down non-wage labour costs.

Finally, all the G7 countries must get to grips with the stock of public debt, which in recent years has exploded to average about 70 per cent of collective gross domestic product in the OECD area.

This will require hard domestic decisions. It would be churlish to begrudge the G7 leaders their trip to Halifax. But they should remember that sound economic policy, like charity, begins at home.

Rahmi M. Koç,
president,
International Chamber of
Commerce,
88 cours Albert 1er,
75008 Paris, France

Cultural mismatch over names

From Mr Malcolm R. Dale.

Sir, If the English want to be snide about French culture they should get their own right first. Reporting that France "is suffering an invasion of Anglo-Saxon first names", Observer ("Kavin, n'est-ce pas?", June 13) gives three examples - none of which is Anglo-Saxon. Pauline dates

back to the Roman Empire (and was the name of Napoleon's sister); Laura is Italian, with long French associations (remember Petrouchka in the *Vauclusse*) and Kevin is Irish. It should be obvious which culture has been "invaded".

Malcolm R. Dale,
403 South Union Street,
Alexandria VA 22314, US

No chance to shop around

From Mr Richard S. Henderson

Sir, I note from your article "Higher carbon tax heats up debate" (Business and the Environment, June 14) that Angela Merkel, the German environment minister, says the Danish case emphasises a need for further harmonisation of the European tax system to prevent citizens from shopping around the internal market".

This may come as something of a surprise to those of your readers who might have supposed that shopping around

increased visits from potential investors and many more phone calls to our overseas offices.

Indeed, I have just returned from Washington where President Clinton and his administration organised a trade and investment conference to help us build in this new time of opportunity.

The news does not seem to have reached the Financial Times, where every map and table in your relocation supplement of June 9 totally ignored Northern Ireland's existence.

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Thursday June 15 1995

The challenges facing the G7

Too much should not be expected from this year's summit of the group of seven leading industrial countries meeting, which begins in earnest today in Halifax, Nova Scotia. Even so, it still has plenty to do.

For several years the summits were dominated, rightly, by the need to complete the Uruguay round of international trade negotiations. Last year, in Naples, the decision was taken to address the reform of other international institutions, including the World Bank and the International Monetary Fund. The Mexican peso crisis has made this choice appear prescient.

To judge by the communiqué leaked to the press last week, pre-summit negotiations among senior officials have achieved considerable agreement. Strengthening the IMF's surveillance and demands for transparency fall under the head of preventive medicine. Doubling the \$28bn currently available under the General Agreement to Borrow should be regarded as emergency treatment.

The case for improved prevention is overwhelming. When it comes to treatment, however, misdiagnosis carries risks. In principle, the larger pool of emergency funds that is being proposed would be used to assist countries facing liquidity crises, rather than problems of insolvency. For maximum effectiveness, the funds are intended to be granted both more quickly and with more strings attached. These conditions appear contradictory. Either the IMF can move more quickly, or it can be more fastidious in its demands, but it is unlikely, mid-crisis, to manage both.

An even more important worry is whether the line between illiquidity and insolvency can be drawn. Significant liquidity problems usually arise from doubts about solvency. Where insolvency is indeed the problem, a better solution would be via formal debt-restructuring, a possibility the G7 seems set to explore.

Degree of caution

Helping developing countries to emerge is as important as stopping the emerging from submerging. The lack of a detailed analysis of the World Bank - and likely absence of agreement on reform of the United Nations - is regrettable.

Mr Clarke's new targets

A malign fate usually catches up with chancellors of the exchequer, unless they move on briskly, as John Major did after he put sterling into the ERM. This is, after all, among the most exposed jobs in British politics. Kenneth Clarke's response to the risks he runs is endearingly robust. Yesterday evening, at the Mansion House, he set out his "no-nonsense approach", based on the - the absolutely correct - conviction that the one thing the UK does not need is another "politically motivated dash for growth".

The operational heart of the speech was the commitment to "set interest rates at the level judged necessary to achieve the inflation target of 2½ per cent or less". To rub in the point, the governor of the Bank of England said that it is by this target that "we expect our policy advice to be judged". Mr Clarke added that pursuit of this target should ensure that inflation will remain in the range of 1·4 per cent. Apparently, he means that, in the real world, pursuit of inflation of less than 2½ per cent might, from time to time, lead to inflation higher than that. He is right.

The statement that this target will run beyond this parliament must be taken with the broader commitment to sound public finances and a stable economy. The overall approach is intended to satisfy two different audiences.

Battle for credibility

People engaged in the financial markets search for signs that the chancellor is taking risks with inflation. Both the level of long-term interest rates and the gap between yields on index-linked and conventional gilts show the battle for credibility has still not been won. If the government is serious about achieving its targets, that lack of credibility will impose a cost on the economy, via higher than needed expected real rates of interest.

Indications of disagreements with the governor of the Bank of England are exhaustively examined. Has he gone soft, ask the markets, or are these merely technical disputes? Much will depend on how sound his judgments turn out to be when they diverge from the Bank's. Yesterday, he merely stated that he and Eddie George "have friendly, constructive, occa-

sional" differences. The present fiscal targets have been set, and inflation is the rate of inflation. That is, the Bank's forecast is that inflation will be 2·5 per cent this year, and 2·2 per cent next. The Bank's forecast is that inflation will be 2·5 per cent this year, and 2·2 per cent next. The Bank's forecast is that inflation will be 2·5 per cent this year, and 2·2 per cent next.

Reform of international institutions requires the assent of countries not represented in Nova Scotia. So should the whole world, or at least a fairer representation of it, attend these summits?

To ask this question is also to ask what the G7 actually represents. If it is the club of the world's leading economic powers, not only Russia, but Canada and, arguably, Italy, the UK and France should be dropped, while China might soon have to be included. If it is made up of the world's leading democracies, India and Brazil should have a better claim to attend than Russia. Effectively, the G7 is a caucus of the like-minded and big countries of the rich North. That is itself a useful grouping.

Clearest neglect

Inevitably, attention will be focused on issues that are currently at the top of the leaders' in-trays: Bosnia, Russia, and the embittered trade relations between the US and Japan. A "hijack" of the summit by Bosnia would be desirable if it produced a new measure of agreement among the interested powers. But it is difficult to believe this is on the cards. The question of Russia's future within the G7 arises here: is it going to be the problem, or part of the solution?

Failure to address the trade issue would represent the clearest neglect of the summit's immediate task. The defence of the liberal trading system was, arguably, the chief achievement of the first G7 summits, in the early 1970s. It continues to be a high priority for these major market economies.

Some fear that being tough on the US over its current policy towards Japan risks derailing the summit altogether. Yet Mr Clinton has to be told that US unilateralism imperils the rules-based multilateral system, to which his predecessors devoted so much effort and imagination. Who can make this point more effectively than this group of long-standing US allies?

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FINANCIAL TIMES

Thursday June 15 1995

Russian parliament backs foreign investment in oil

By Chrystie Freeland in Moscow and Robert Corzine in London

The Russian parliament yesterday approved a law which could pave the way for tens of billions of dollars of western investment in Russia's oil industry.

Approval of the production-sharing law by the Duma, the lower house of the Russian parliament, was the vital missing piece in Russia's legislative jigsaw regulating foreign investment in the oil sector.

Western companies have held off from going ahead with large oil development projects because of the country's insecure legal environment.

But passage of the legislation means "now is the moment of truth" for many western oil companies, according to Mr Charles Ackermann, of the Boston Consulting Group.

However, lobbying by Russian oil companies has secured amendments to the bill which

could deprive western oil companies of some of the privileges they would have enjoyed under earlier drafts.

Moreover, some western companies want separate approval for specific projects before committing large amounts of capital. Western businesses in Moscow fear that securing such approvals may prove difficult.

Although both the upper house of parliament and the president may still block the legislation, Russian experts expected it to clear the remaining hurdles easily. The bill could be signed into law by President Boris Yeltsin before the end of this month.

The legislation covers all minerals, including oil and diamonds, and obliges the Russian government to stick to the initial terms of all contracts it signs with foreign investors for the legal duration of the deals.

Political instability in Russia and the country's chaotic civil laws had made western oil companies reluctant to make significant investments without firmer legal guarantees.

Mr Alexei Melnikov, an MP from the reformist Yabloko bloc in parliament and one of the authors of the production-sharing bill, said it would clear the way for 12 substantial oil and gas projects with western investors and for \$60bn-\$70bn in direct foreign investment over the next decade.

The state property fund yesterday approved guidelines for the sale of convertible bonds by Lukoil, Russia's largest oil company.

Lukoil now has approval to issue convertible bonds backed by an 11 per cent stake to the company currently held by the Russian government. After April 5 1996 the state will reacquire this stake and the bonds will be converted into shares.

Lukoil, which hopes to raise \$300m-\$400m through the bond issue, plans two separate offerings, one for the domestic market and another targeted at foreign investors.

Mozart hits wrong note with Poland and Germany

By Christopher Bobinski
in Warsaw

Relations between Germany and Poland have struck a discordant note over the works of Mozart, Schubert and Brahms.

Mr Klaus Kinkel, the German foreign minister, was in Poland yesterday attempting to convince his hosts to return the composers' manuscripts which were taken from Germany at the end of the second world war.

The two countries are contesting the ownership of musical manuscripts and priceless books once stored in the Prussian state library and now in the Jagiellonian University library in Krakow.

The dispute between Poland and Germany has echoes of the arguments throughout eastern and central Europe over the ownership of art works and libraries confiscated by the German army or taken from Germany at

the end of the war in 1945. Mr Kinkel was also in Warsaw to reassure Polish leaders of German support for the country's future membership of the European Union, but said his government wants the return of the collection, which includes a quarter of Mozart's manuscripts. Bonn would like the unfinished business settled ahead of a visit to Warsaw by Chancellor Helmut Kohl on July 6.

Mr Wladyslaw Bartoszewski, Polish foreign minister, said the issue of restitution of works of art and documents had to be resolved "globally" rather than piece by piece.

In April, both sides met in Berlin for a fifth round of talks on the subject. The Germans asked for a return of the Prussian library, while the Poles presented a list of 114 items removed from present Polish territory during the last war and currently thought to be in Germany.

The Poles argue that the collection - including 570,000 books and 7,500 of which were printed between the 15th and 18th centuries - belongs to the state as abandoned German property, a category recognised in international law.

But the Germans say the collection is war booty and should be returned.

Britain's inflation target extended

Continued from Page 1

would now be extended indefinitely beyond the next general election, which must be held by April 1997. The target for underlying inflation up to the end of the parliament is 1.4 per cent. The rate in the year to April was 2.6 per cent.

The chancellor combined a message of fiscal and monetary probity with an attempt to reassure Tory MPs desperate for a revival in their popularity among the key voters of "middle England". Mr Clarke conceded that the pursuit of economic stability had been painful. "The full

benefits to the consumer have yet to feed through. But they will," he said.

The financial markets showed little reaction to the extension of the inflation target, but some City economists warned that Mr Clarke was not as tough as he claimed.

The chancellor promised that interest rates would be set at the level needed to keep underlying inflation below 2.5 per cent. But he also added that shocks like the recent sharp rise in commodity prices could take inflation out of that range temporarily.

Mr Keith Skeoch, chief economist at James Capel, said this was an unnecessary addendum: "If you were unkind you would say that there was room for a get-out there."

Mr Bill Martin, chief economist at UBS, argued that the relevant range for monetary policy was now clearly 1.4 per cent and that Mr Clarke had therefore announced "a timely relaxation" which would give him more room for manoeuvre.

In his speech to the Mansion house dinner, Mr Eddie George, governor of the Bank of England, said he very much welcomed Mr Clarke's unambiguous commitment to permanently low inflation.

Mexico planning return to bond market

By Richard Lapper in London

Mexico is about to announce its return to the public bond markets, six months after the peso crisis.

Bancomex, a government-owned development bank, is expected today to raise between \$200m and \$300m with Mexico's first public issue since devaluation last December triggered severe financial crisis and a sharp contraction in the economy.

Mr Guillermo Ortiz, finance minister, said legal documentation was now in place for Mexico to raise more money through public bond issues. Mr Ortiz, who was in London for a conference of international borrowers and investors, said the country "had regained access to the capital markets much earlier than I expected".

Banco Santander de Negocios, the Spanish bank, is leading the issue for Bancomex. The bond is a floating rate note and is expected to pay interest at 5 per cent above points over the London interbank offered rate (Libor).

Bancomex and Nefinsa, another state development bank, have already raised some \$750m in recent weeks.

In contrast to Mexico's recovery from its last financial crisis in the 1980s, the recovery has been based on a rapid growth in exports, made possible in part by a 50 per cent devaluation in the peso.

In the first four months of 1995 exports grew by 32 per cent compared with the same period of last year, with the non-oil and maquila (assembly of imported components for re-export) sectors rising by 40 per cent. During the same period imports fell by 5 per cent on last year.

The export recovery has been so strong that reserves have increased - gross reserves currently stand at \$10.65bn - and Mexico has not made complete use of a multi-billion dollar aid package agreed by the US and the multilateral institutions.

Mexico has also made progress in successfully meeting payments on its short-term government debt, with the value of outstanding *tesobonos* (dollar-linked treasury bills) falling from some \$30bn in December 1994 to about \$10bn today.

During the first quarter the government repaid \$16bn in *tesobonos*, drawing \$1bn of this amount from the support package. It expects to repay \$6bn in the second quarter of the year, covering about one third of this amount from its own resources, and a further \$6.7bn during July and August.

Mexico has some \$20bn available to it from the support package available to draw on in the second half of the year.

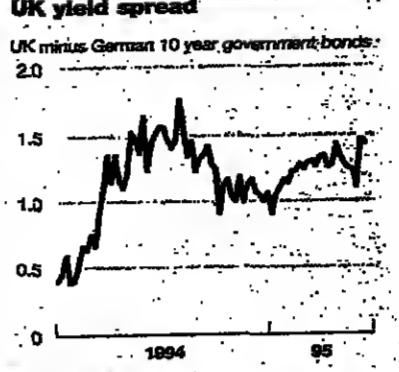
PRI funding scandal, Page 4

THE LEX COLUMN

Diet of Worms

FT-SE Eurotrack 200: 1445.8 (-2.4)

UK yield spread



Source: Datastream

She must also engineer sales growth which will involve clever exploitation of the delicate Ashley brand. Too aggressive promotion will ruin the brand, but too narrow a focus on clothes and furnishings will limit the opportunities for growth. The hope is that the woman who lived in Mothercare with talking trees and singing clocks will find similar ways of reinvigorating Ashley.

If sales climb rapidly on a much reduced cost base, there is scope for a substantial improvement in profits and margins. The problem is that investors attracted by the recover story, that this is already in the price, say the shares stand on optimistic multiples of 40 and 22 times expected earnings for this year and next.

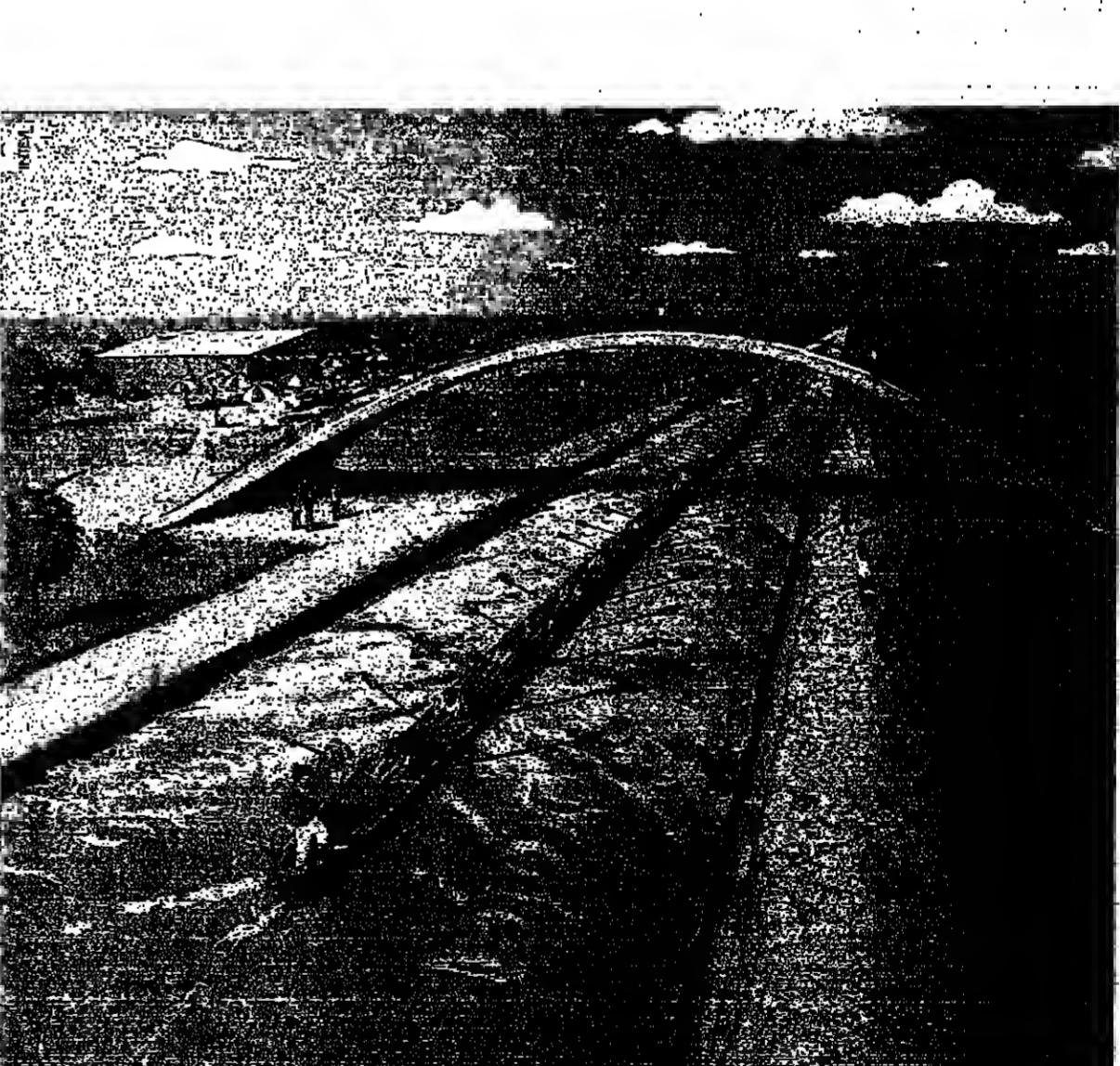
Goodwill

The Accounting Standards Board's proposals on accounting for goodwill is a triumph of diplomacy as well as intellectual ingenuity. The ASB's style has hitherto been somewhat confrontational, but the new rules are designed to please those who prepare accounts - namely companies - and those who use them, chiefly investors.

Amazingly, given the passions which goodwill accounting provokes, the proposals are likely to meet with widespread approval. This is despite the fact that companies favoured way of dealing with the substance - writing it off against reserves - is set to be outlawed. The reason is that companies will not be obliged to write goodwill off against earnings over an arbitrary number of years. They may do this if they want, but in practice big companies will opt to leave the goodwill on the balance sheet, testing it from year to year to see whether there has been any diminution in its value. Sensibly, companies will be able to keep brands and other intangibles on the balance sheet, subject to similar tests.

If the proposals are adopted, the quality of accounts will be doubly improved. Goodwill will be visible in the accounts, not written off and forgotten. Furthermore, the tests on the value of goodwill seem rigorous and yet not unduly complicated, and will prove a useful discipline for managers. They will however add to the pressures on auditors, who will be forced to exercise judgment where they may have preferred clear-cut guidelines.

Additional Lex comment on NFC, Page 20



Reliable banking made in Germany

It's exceptional service that makes a bank a good bank.

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As one of Europe's leading banks we are big and above all stable enough to

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- with you. Established as a German wholesale bank, we offer you all services from one source, made to measure and for as long as you wish.

Granted, reliability doesn't make everything right. But everything's wrong without reliable cooperation.

WestLB

Europe today

Low pressure west of Denmark will produce a lot of cloud and rain over the Low Countries and parts of Germany with afternoon temperatures remaining below 17°C. The UK will be dry. A cold front will move into eastern Europe accompanied by patchy cloud and scattered thunder showers. In the wake of this front, more showers and some cloud will occur over central Europe. Southern Italy, Greece and most of Spain will be mainly sunny. Afternoon temperatures will easily exceed 25°C in most areas and may reach 33°C in parts of Greece.

Five-day forecast

Rain and thunder showers will linger over eastern Europe and later over European Russia. At the start of the weekend, north-west Europe will be rather sunny and dry but showers will increase by the end of the weekend. A frontal system will cause a lot of cloud and rain in the north-western UK from Saturday. Most of south-east Europe will have sunny periods with a few thunder storms.

TODAY'S TEMPERATURES

	Maximum Celsius	Minimum Celsius	Condition	Wind speed in KPH
Abu Dhabi	sun 35	fair 26	Cold front	10-20
Accra	shower 23	fair 20	Cloudy	10-20
Algiers	sun 28	Bermuda	Cloudy	10-20
Amsterdam	rain 14	Brussels	Cloudy	10-20
Athens	fair 29	Bombay	Fair	10-20
B. Aires	fair 18	Budapest	Fair	10-20
B. Aires	fair 20	Grazien	Fair	10-20
Bangkok	sun 36	Caro	Sun	10-20
Barcelona	thunder 22	Cape Town	Fair	10-20
Beijing	fair 31	Catania	Fair	10-20
Belo	fair 31	Cardiff	Fair	10-20
Bogota	fair 23	Casablanca	Fair	10-20
Bora	cloudy 19	Geneva	Fair	10-20
Brisbane	fair 24	Gibraltar	Fair	10-20
Buenos Aires	fair 20	Colombia	Rain	10-20
Buenos Aires	fair 20	Dakar	Fair	10-20
Buenos Aires	fair 24	Dubai	Fair	10-20
Buenos Aires	fair 22	Dublin	Fair	10-20
Buenos Aires	fair 21	Dubrovnik	Fair	10-20
Buenos Aires	fair 15	Edinburgh	Fair	10-20
Buenos Aires	fair 18	Faro	Fair	10-20
Buenos Aires	fair 21	Frankfurt	Dry	10-20
Buenos Aires	fair 25	Glasgow	Fair	10-20
Buenos Aires	fair 23	Geneva	Fair	10-20
Buenos Aires	fair 24	Gibraltar	Fair	10-20
Buenos Aires	fair 20	Gothenburg	Fair	10-20
Buenos Aires	fair 21	Hamburg	Fair	10-20
Buenos Aires	fair 23	Helsinki	Shower	10-20
Buenos Aires	fair 25	Istanbul	Fair	10-20
Buenos Aires	fair 23	Jakarta	Fair	10-20
Buenos Aires	fair 23	Kuala Lumpur	Fair	10-20
Buenos Aires	fair 23	Khartoum	Fair	10-20
Buenos Aires	fair 23	Kuala Lumpur	Fair	10-20
Buenos Aires	fair 23	Kuwait	Fair	10-20
Buenos Aires	fair 23	Lagos	Fair	10-20
Buenos Aires	fair 23	London	Fair	10-20
Buenos Aires	fair 23	Lisbon	Fair	10-20
Buenos Aires	fair 23</td			



FINANCIAL TIMES COMPANIES & MARKETS

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Thursday June 15 1995

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WINKLER MARKETING INTERNATIONAL LTD

IN BRIEF

WR Grace to divest medical care unit

W.R. Grace, the US chemical group, is to spin off its National Medical Care subsidiary tax-free to shareholders. The head of the business, Mr Constantine Haskins, had bid \$3.5bn for it and will remain as chairman. Grace said it had turned down an approach from Vliva, a smaller Californian health-care company.

KHD and chief executive go separate ways
Klockner-Humboldt-Deutz (KHD), the troubled German engine maker, has parted company with Mr Werner Kirchgässer, its chief executive. He is believed to have had disagreements with Mr Michael Endres, the Deutsche Bank director who chairs KHD's supervisory board. Page 16

Portugal privatises tobacco company
The Portuguese government is to privatise Tabacalera, a tobacco company, by selling 80 per cent to a single buyer and the remainder to employees and small savers. Page 16

Norwegian bank launches rival bid
Sparebank Nor, Norway's biggest savings bank, has launched a rival bid for Norgeskredit Holding, the emerging Norwegian financial services group. Page 16

Belgacom rings up a record
Belgacom, Belgium's state-owned telephone group, announced record annual profits, just weeks before the government is expected to announce its choice of foreign partner for the company. Page 16

US healthcare group issues warning
Humana, one of the biggest managed healthcare companies in the US, warned that its profits would not match expectations in the second quarter. Page 18

Chinese agency sells Hong Kong stake
An investment agency of the Chinese government has sold 61m shares in Hongkong Telecom, raising some HK\$945.5m (\$121m). Page 19

Indian investment bank shrugs off gloom
Although India's stock market is more than a third off its peak of September last year, the Industrial Development Bank of India, the country's leading financier of industrial projects, is not deterred from proceeding with a share issue. Page 19

Graham agrees £52m Erith bid
Graham Group was yesterday poised to become the UK's second largest builders' merchant by agreeing to acquire Erith in a deal worth about £51.5m (\$51.5m). Page 20

EKI rights seek £137m for expansion
EKI, the UK engineering group, has launched a £136.5m (\$174.5m) rights issue to cut borrowings and fund acquisitions. Page 20

Electronics put Istanbul on upward track
The victory of Turkey's prime minister in local elections 10 days ago, appears to have re-established the Istanbul market on the upward track. Back Page

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Chief price changes yesterday

FRANKFURT (cont)		PARIS (cont)			
Auto	840	15	Boeing	565	+ 15
Kraft	598.7	+ 15	UPS Local	405	+ 11
Krauth	480.5	+ 20	US Air	102	+ 10
Stringer Anal	765	- 25	US Updike	783	+ 15
Entschmelz	765	- 25	Veracore Co	650	+ 13
Zentrale Feinkopf	185	- 10	Deutsche	810	+ 16
NEW YORK (cont)			Ford (UK)	941	+ 27
Car Therapeutics	10%	- 8%	YRC Worldwide	100	+ 10
Exxon	581	+ 1%	Yves Rocher	6300	+ 50
Honeywell	40%	- 1%	Yves Saint Laurent	454	+ 8
Hannover	18%	- 2%	Yves Tissot	3840	+ 45
Int'l Healthcare	81%	- 2%	Yves Tissot	1622	+ 10
London	40	- 2%	Yves Tissot	1440	+ 10
LONDON (cont)			Sheldene	974	- 22
Elles	105	+ 28	Siemens	51	+ 17
Kelloggs Biscuit	724	+ 23	Coats & Wilcox	51	+ 17
ITV	435	+ 18	Crane Corp	358	+ 17
Post			HSBC	102.5	+ 25
Barney	217	- 11	Hong Kong	58.5	+ 15
Brit Thornton	30	- 6	New World Day	24.3	+ 15
Tapete Tech	35	- 20	Sam Hing Kai	58	+ 25
TORONTO (cont)			Montgomery Ward	100	+ 10
Scotiabank	82	+ 1	Stamps	280	+ 22
Cottontail Soft	38	+ 2%	Bank of America	225	+ 14
Falls			MetLife	800	+ 20
Diamond Fields	575	- 25	Tele	682	+ 15
Lowes	575	- 16	Amoco	250	- 10
Magna A	54%	- 14	Amer Standard	250	- 10
Pozen	53%	- 14	The President	222	- 12

New York & Toronto prices at 12.30.

Companies & Markets

Thursday June 15 1995

Sprint may spin off cellular operations

By Maggie Urry in New York

Regulations force US company to look at offloading business in wake of winning auctions for PCS wireless licenses

Sprint, the US communications company, is considering spinning off or selling its conventional cellular business following its success in auctions for personal communications spectrum wireless licenses in March.

Sprint Cellular is the eighth largest cellular company in the US with 1.2m customers. In the year to March 31, it had operating revenues of \$762m and operating income of \$104m, more than 200 per cent higher than in the previous year. The group has annual revenues of \$1.6bn.

Mr William Esrey, chairman and chief

executive, said the board was studying "various options as we seek the most effective marketing identity and technological infrastructure for our wireless business". He said the industry was forecast to triple or quadruple over the next decade.

In morning trading, Sprint shares rose \$1 to \$34.40.

In the March PCS auctions, Sprint

Telecommunications Venture, a joint

venture between Sprint and three cable

TV groups: Tele-Communications, Comcast and Cox Communications, won licences taking its coverage to 182m people. However, its success means it is in breach of Federal Communications Commission regulations which stop PCS licensees winning from owning large stakes in cellular services in the same area. Sprint is therefore required to reduce its stake in its cellular businesses in those four cities to under 20 per cent, or to cut the population it serves to under 10 per cent.

The minimum reduction would

require a cut in its population of 1.7m,

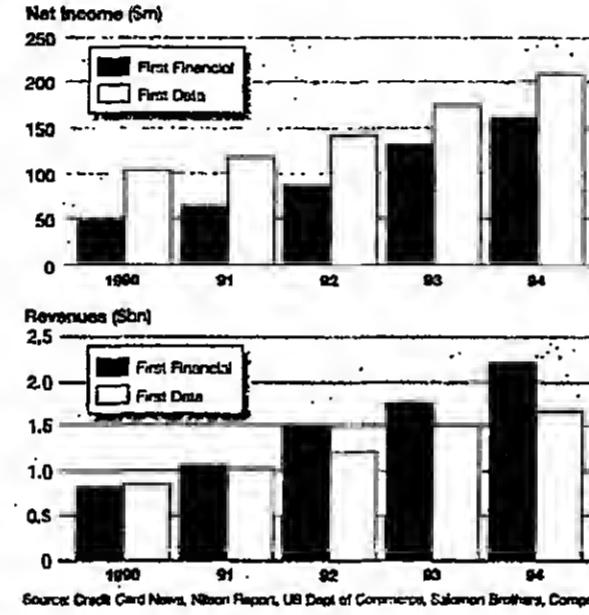
or if it sold out of these markets completely and made cuts in other overlap markets, it would reduce its population by 8m. However, Sprint is considering going further than the minimum required, and could either sell or exchange some of its cellular activities, or demerge the business by giving shares to shareholders.

Sprint has appointed Dillon Read and Salomon Brothers, two investment banks, to advise on the options. It would assess each option for strategic implications, tax considerations and the effect on shareholder value. It would make a decision in a few weeks.

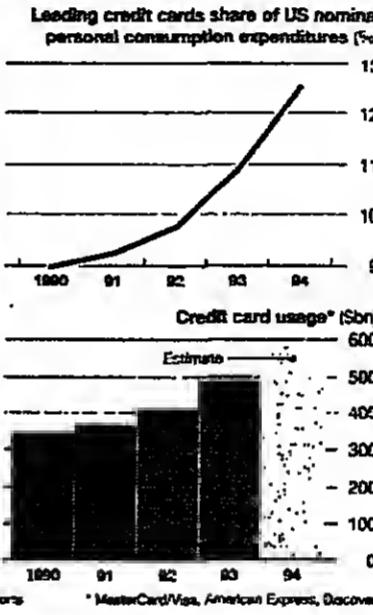
Richard Waters analyses the \$6.5bn information services takeover

First Data forges pivotal link in electric pay chain

What's on the cards

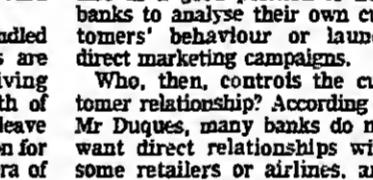


Source: Credit Card News, Nilson Report, US Dept of Commerce, Salomon Brothers, Company reports



Source: Credit Card News, Nilson Report, US Dept of Commerce, Salomon Brothers, Company reports

Leading credit cards share of US nominal personal consumption expenditures (%)



* MasterCard/Visa, American Express, Discover

By Norma Cohen,
Investments Correspondent

The New York Stock Exchange is considering the creation of a "single point-of-purchase" facility for trading in the shares of non-US companies and would need a "critical mass" of twice that in order for a full service to be established, he said.

He said it could take two to three years to reach that critical mass.

The facility would pose a competitive threat to London - the centre for international share trading - which last year announced its first formal marketing effort to persuade non-US companies to seek a listing.

US investors have increased their holdings of foreign shares in recent years, and current expectations are that a further \$300bn to \$500bn could flow into non-US equities by the end of the decade.

"US investors want to own the share in the currency but with the transparency, cost, liquidity and depth of the US market," said Mr Dick Grasso, NYSE chairman.

INTERNATIONAL COMPANIES AND FINANCE

Sparebanken Nor launches rival bid for Norgeskredit

By Karen Fossel
in Oslo

Sparebanken Nor, Norway's biggest savings bank, yesterday launched a rival bid for Norgeskredit Holding, the emerging Norwegian financial services group.

The move, at the request of Norgeskredit, comes two days after a lower offer from Christiania Bank, Norway's second biggest bank.

Sparebanken Nor, known internationally as Union Bank of Norway, has offered NKR220 per preference share, valuing Norgeskredit - which has assets of NKR30bn - at more than NKR2.5bn (\$400m).

On Monday, Christiania bid

NKR200 per preference share, equivalent to about NKR2.3bn.

Sparebanken Nor said it made the offer at the request of Norgeskredit which has rejected Christiania's preliminary approaches on the grounds of price and its plans for the company.

Norgeskredit, whose main activity is mortgage lending, yesterday sent a letter to shareholders advising that the offer from Sparebanken Nor appeared to be better on "all main points", but said the board would evaluate both bids.

It advised shareholders to wait before deciding on the two offers until June 21 when details of the board's

assessment would be disclosed.

Norgeskredit closed NKR21 higher at NKR221 yesterday, while Christiania fell NKR0.10 to NKR1.10.

The contest between Sparebanken Nor and Christiania comes amid a separate takeover battle in the country's financial sector.

The ownership of Vital Forsikring, Norway's biggest life and pension group, is being fought between Aegon, the large Dutch insurance group, and Den norske Bank, Norway's biggest commercial bank.

Aegon last month bid NKR1.03 a share for Vital but DnB countered with a higher bid of NKR1.10.

Belgacom posts record earnings

By Emma Tucker
in Brussels

Belgacom, Belgium's state-owned telephone group, yesterday announced record profits for 1994, just weeks before the government is expected to announce its choice of foreign partner for the company.

Mr John Goossens, chief executive, said net profits were BFR9.7bn (\$338m) last year, up marginally on 1993's figures, and turnover had risen to BFR11.7bn from BFR10.9bn in 1993.

The figures were more important than usual because the Belgian government aims

to sell a 25 per cent stake in Belgacom - which has been valued by the government at BFR160bn - before the end of the year.

A shortlist of five leading contenders has been drawn up for what will amount to Europe's biggest, and western Europe's first, telecoms acquisition target.

The interested companies are British Telecommunications, in discussion with Bell Atlantic of the US; Koninklijke PTT Nederland; Ameritech of the US; and Stet, the Italian state telecoms company.

Investments by Belgacom, one of the biggest investors in

Belgium, amounted to BFR33bn in 1994, a drop on 1993 when the company acquired the Belgacom Towers building in Brussels.

Last year's investments were concentrated on the digitalisation of the network and other modernisations.

Pre-tax profits fell to BFR10bn from BFR12.2bn in 1993.

Mr Goossens said that in

spite of mounting competition, he expected a rise in Belgacom's turnover this year and acknowledged the company would face a challenge once the telecoms sector was liberalised across the EU in 1998.

Mr Kirchgässer had been with KHD for 26 years and was due to remain chief executive until mid-1996. The company said he would remain as an adviser.

Mr Schneider, 43, said he would "concentrate especially on improving [the company's] operating performance through internal measures", according to a statement issued by KHD.

"The priority will be to expand relations with clients, further improve manufacturing processes and cost structures and above all increase the motivation and creativity of the employees," Mr Schneider added.

Mr Kirchgässer's departure, by mutual agreement, comes just months after KHD was rescued from bankruptcy with an emergency package worth DM919m (\$656m), over half of which came from Deutsche Bank, the company's biggest shareholder. The company said in May it expected to lose DM308m this year and not break even until 1997.

The difficulties at one of Germany's best-known engine makers stem from the late 1980s, but the company's near collapse in January is believed to have sealed Mr Kirchgässer's fortunes.

Until this March, Mr Schneider had been responsible for the engineering and plant divisions at Bremer Vulkan.

The VW offshoot said it planned to begin production of 30,000 cars a year in 1996.

VW is planning 1995 investment in the unit of DM36m.

Its 1992 to 1994 investment totalled DM130m.

As part of the effort to

KHD parts company with chief

By Michael Lindemann in Bonn

Klockner-Humboldt-Deutz (KHD), the troubled German engine maker, yesterday parted company with Mr Werner Kirchgässer, its chief executive. He was replaced by Mr Anton Schneider, who was until recently a member of the management board at Bremer Vulkan, Germany's biggest shipbuilding group.

Mr Kirchgässer, 57, became KHD's chief executive in 1991 but is believed to have had disagreements with Mr Michael Endres, the Deutsche Bank director who chairs KHD's supervisory board, a non-executive group which oversees the company's management.

Mr Kirchgässer had been with KHD for 26 years and was due to remain chief executive until mid-1996. The company said he would remain as an adviser.

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As part of the effort to

Portugal to privatise Tabaqueira

By Peter Wise
in Lisbon

The Portuguese government is to privatise Tabaqueira, a tobacco company with annual sales of Es175bn (\$1.2bn), by selling 80 per cent to a single buyer and the remainder to employees and small savers.

The sale is expected in August.

The government said yesterday that 80 per cent of the company, the only cigarette producer in mainland Portugal,

would be sold by auction to the highest bidder.

No discrimination would be made between foreign and Portuguese bidders.

The purchaser will be required to retain at least 51 per cent of the company for five years and to buy any shares left over from the subsequent sale of the remainder at a discount to workers, emigrants and small savers.

Three initial appraisals of

Investimento, Banco Esei and Banco de Fomento e Exterior, indicated a value of about Es40bn, according to the government. A definitive evaluation has yet to be concluded.

Analysts said Tabaqueira is estimated to account for about 80 per cent of tobacco sales in Portugal. The only other Portuguese cigarette manufacturers produce for the islands of Madeira and the Azores.

Net profit fell 33.6 per cent to Es2.3bn in 1994 from 1993, and sales declined 3.9 per cent to

Bid battle opens doors in Switzerland

The takeover battle for Holvis, the Swiss non-wovens group, however, at the eleventh hour BBA appeared.

The board then had to decide whether to agree to BBA's conditions, in particular a "knock-out" contract under which Holvis would immediately sell its non-wovens division to BBA if a higher bid for the whole group materialised.

It claimed the contract was illegal, but a Swiss court upheld it on the grounds that it was the only way the Holvis board could get a higher offer for its shareholders.

All this is a long way from the traditional Swiss practice in takeover deals. Typically, directors passively agreed to public holders being offered less for their shares than controlling shareholders.

However, most leading Swiss companies have made considerable progress in recognising shareholder interests. Many have reduced restrictions on voting rights and improved disclosure, accepting the

Anglo-Saxon rationale that the best defence against a takeover is a share price that is based on accurate information.

Ironically, Holvis would seem to disprove that rule and may discourage some Swiss companies from further liberalisation moves.

Three years ago, Holvis was the first widely-held Swiss company to eliminate all voting restrictions on its shares and has won awards for the high level of disclosure in its reports. Yet its reward was a depressed share price and to be taken over.

Analysts say it was a special case, with increasing disclosure merely showing that the directors were not sorting out the group's problems.

Many Swiss companies claim they are maintaining voting restrictions as a protection against surprise takeover bids. Switzerland has no law obliging big shareholders to disclose their holdings, except for once a year in the annual report.

Ian Rodger

Bankers Trust re-rated

By Richard Waters
in New York

Bankers Trust, the US bank which has been battered by trading losses and lawsuits over its derivatives operations, was further hit yesterday as its credit rating was cut by Moody's Investors Service.

The US rating agency, in cutting the bank's senior debt rating from A1 to A2, said the action was prompted by concerns about Bankers Trust's reliance on two main businesses, derivatives and trad-

ing. Moody's said the derivatives activities were likely to be hampered by a fall in demand for the sort of complex and high-margin products in which the bank specialised.

It also warned that technological change and consolidation in transaction processing businesses would "challenge" the bank's ability to remain a competitive force in these businesses.

Bankers Trust called the Moody's action "unwarranted" and pointed out that it expected a second-quarter profit.

L'ORÉAL GENERAL MEETINGS

The General Meetings of L'ORÉAL S.A. were held on Tuesday 30 May 1995 and were chaired by Mr. Lindsay OWEN-JONES, Chairman and Chief Executive Officer.

The Annual General Meeting approved the accounts for the 1994 financial year. Consolidated sales increased to FF 476 billion. Net profit before capital gains and losses and after minority interests increased by 20.7% to FF 3,121 million, resulting in earnings per share and investment certificate of FF 50.78, an increase of 14.3%.

The meeting agreed to distribute a net dividend of FF 12.20 per share and investment certificate, payable from Wednesday 28 June 1995 at any French bank or financial institution. The dividend rose by 13% compared to 1993.

The Meeting elected Mrs. BETTENCOURT, née Liliane SCHUELLER, the daughter of L'ORÉAL's founder, and Mr. Édouard de ROYERE, former Chairman of L'AIR LIQUIDE, as Directors for a period of four years, which will expire at the time of the Annual General Meeting to approve the Company's accounts for the 1998 financial year.

Finally, the Meeting renewed the authorisation given to L'ORÉAL to purchase its own shares up to a maximum amount of 1% of the share capital.

The authorisation given to the Board of Directors to increase share capital to a maximum of FF 1 billion was renewed by an Extraordinary General Meeting which was held before the Annual General Meeting.

The Board was also given the authority to grant L'ORÉAL stock options to selected employees, up to a limit of 2% of the share capital.

It was decided that the registration of investment certificates should be obligatory.

It was also decided at the Extraordinary General Meeting to raise the maximum number of Directors from 12 to 15.

The 1994 L'ORÉAL Annual Report can be obtained from banks, stockbrokers and financial institutions, or by writing to : L'ORÉAL Business Information and Investor Relations Department - 41, rue Marceau 92117 CLICHY - Tel.: +33 1 47 56 70 00 - Fax: +33 1 47 56 80 02.

U.S. \$50,000,000



Credit Chimique

Floating Rate Notes due 1996

In accordance with the provisions of the Note, notice is hereby given that for the Interest Period from June 15, 1995 to December 15, 1995 the Notes will carry an Interest Rate of 6% per annum. The interest payable on the relevant Interest Payment Date September 15, 1995, against Coupon No. 7 will be US\$74.53 per US \$10,000 Note and US \$7863.28 per US \$250,000 Note.

AGENT BANK: Charterhouse Bank Limited
is Regulated by The Securities and Futures Authority

CHARTERHOUSE

CITICORP

U.S. \$250,000,000

UNDATED FLOATING RATE

PRIMARY CAPITAL NOTES

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from 15th June 1995 to 15th December 1995, the Notes will bear a Rate of Interest of 6.1875% per annum. The amount of interest payable on 15th December 1995 will be US \$314.53 per US \$10,000 Note and US \$7863.28 per US \$250,000 Note.

AGENT BANK: Citibank, N.Y., Issuer Services, Agent Bank

CITIBANK

Heart II Limited

US\$ 174,000,000

Secured Floating Rate

Notes due 2000

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Period from 14th June 1995 to 14th September, 1995 the Notes will bear a rate of interest of 6.325% per annum. The interest amount payable on 14th September, 1995 will be US \$20,698.33.

AGENT BANK: Dai-Ichi Kangyo Bank (Luxembourg) S.A.

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INTERNATIONAL COMPANIES AND FINANCE

Rautaruukki ahead 70% in first term and is upbeat

By Christopher Brown-Humes
in Stockholm

Rautaruukki of Finland, the Nordic region's second largest steel producer, painted a bright picture of its prospects yesterday after reporting a 70 per cent jump in four-month profit to FIM2.37m (£36m).

It said strong west European steel markets and higher prices would ensure a "considerable" improvement in its full-year result after last year's FIM40m profit. Turnover would rise to FIM8.4m from FIM8.3m.

Last week the group announced a FIM1.5bn investment programme expected to increase steel output to 2.8m tonnes a year from 2.3m tonnes

over five years without damaging the balance sheet.

The figures, which are much better than expected, follow profits of FIM2.17m in the first four months of 1994.

Rautaruukki said economic recovery had boosted investment and increased steel demand while west European prices were 10 per cent to 15 per cent higher than a year ago. However, the strong markka meant average Finnish currency prices were only 6 per cent higher.

Turnover rose to FIM2.9bn from FIM2.6bn in the four months, with higher volumes and firmer prices accounting equally for the 12 per cent increase.

Renault in co-operation deal with German gearbox maker

By Helg Simonian,
Motor Industry Correspondent

Renault VI, the trucks and buses division of the French motor group, has signed a letter of intent to co-operate on medium duty gearboxes with ZF, the German gearbox specialist.

Renault will buy models from ZF's nine and 16-speed Econod transmission range, while the German company will purchase gears and shafts from Renault VI.

The deal has been struck because demand for such products, which are designed for trucks in the 25 to 32 tonne range, is relatively limited and

manufacturers are keen to seek economies of scale.

Moreover, ZF's gearboxes offer some technical benefits and are lighter than their Renault equivalents, which are better suited to heavier vehicles.

Renault VI gave no indication of the number of units involved, or the value of the deal. However, it said the two manufacturers hoped to reach final decisions on the extent of their co-operation soon.

The agreement comes hard on the heels of a memorandum of understanding this month between Renault VI and MAN of Germany to study the development and manufacture of components.

A number of leading truck makers have been trying to establish co-operation deals to reduce development expenditure and split production costs.

Renault VI has been particularly active in this respect after merger plans with Volvo of Sweden fell through at the end of 1993.

The company already has an arrangement with Iveco, owned by Italy's Fiat, to work together on truck cabs, and is now undertaking a number of studies to find ways of co-operating more closely with Mack's US subsidiary, on big truck engines.

IBM and Europay collaborate

By Richard Wolfe

International Business Machines yesterday linked with Europay, the international payment card organisation, to develop a fraud-free shopping service over the Internet.

The joint initiative aims to design a secure payment system based on smart cards - plastic cards which carry a computer chip. Shoppers would be able to use Europay cards to purchase goods and services over the international electronic network using a card reader attached to a personal computer, telephone or television.

Mr Ron Williams, chief executive of Europay, said: "We plan to unleash huge demand for electronic commerce that

capitalises on the revolutionary potential of digital technology.

"There is the potential to attract tens of millions of consumers and process billions of transactions by linking the highest standards of payment security and fraud protection offered by chip cards with Europay brands and IBM's open payment protocol."

The smart card approach is an attempt to solve the problem of smaller payments over the Internet, which are costly to process. Europay's system, which is expected to be piloted early next year, is designed to be used with its "electronic purse" - a card which stores cash value.

However shoppers will also be able to use Europay's debit and credit cards from 1997 when the traditional cards sporting magnetic stripes are replaced with smart cards.

IBM's alliance with Europay, whose brands include MasterCard in Europe, is one of three separate systems being developed to allow secure card transactions on the Internet. MasterCard is working with Netscape Communications to develop a secure payment system in the US, which is likely to be ready in pilot form this autumn. Meanwhile, Microsoft and Visa International are working on their own system based around Visa's plastic cards.

Security concerns are being eased as software packages are designed to encrypt card details before transmission over the Internet.

Data storage supplier diversifies

By Louise Kehoe
in San Francisco

EMC, the leading supplier of data storage systems used with mainframe computers, has entered the "open systems" market and formed marketing alliances with three of the top database software companies.

Building on its success with mainframes - EMC has stolen IBM's market leadership in data storage systems - the company aims to move into systems for use with comput-

ers running the Unix operating system, such as those supplied by Hewlett-Packard, Digital Equipment and Sun Microsystems.

EMC pioneered the use of Redundant Array of Inexpensive Disks (Raid) technology, in which a large number of standard disk drives, much like those used in personal computers, are linked to create a larger capacity data storage system.

Raid systems are rapidly displacing traditional data storage systems from suppliers such as IBM and Hitachi. EMC will this year achieve a 38 per cent share of the world market for data storage systems, measured in gigabytes of storage capacity, according to IDC, the market research group.

IBM will sit behind EMC to 35 per cent, down from a 75 per cent share in 1990, market analysts say. However, IBM and other traditional data storage systems builders have responded with their own versions of Raid systems.

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INTERNATIONAL COMPANIES AND FINANCE

NEWS DIGEST

Storli's profits undermined by exchange rate

Norway's Storli, one of the world's largest chemical tanker operators, more than doubled four-month operating profits, to Nkr127.4m (\$20.4m) from Nkr60.7m a year ago. It benefited from a 25 per cent rise in time-charter freight rates, writes Karen Fossli in Oslo.

Freight income on a time-charter basis rose to Nkr68.50m from Nkr57.02m last year, but pre-tax profits slipped to Nkr45.7m from Nkr66.7m.

Pre-tax profits were undermined by an average kroner/dollar exchange rate in the period of Nkr6.45, some 13 per cent below last year's rate.

Meanwhile, Wilhelmsen, a large Norwegian shipping group, plunged into a four-month pre-tax loss of Nkr3m from a profit of Nkr32m. Last year's result included a Nkr10m extraordinary gain from the disposal of the group's shareholding in a drilling rig.

Operating profits were cut to Nkr7.2m from Nkr9.6m as currency losses reached Nkr4.1m against gains of Nkr7.1m last year. Financial charges against accounts rose to Nkr3m from Nkr2m.

Wilhelmsen warned that developments in the tanker and currency markets created uncertainty over results for the remainder of the year.

Canadian Distillers wins right to advertise on TV

Canadian Distillers has won the right to advertise on television after a five-year court battle, writes Robert Gibbons in Montreal.

The federal court in Ottawa overturned a section of the Television Broadcasting Regulations prohibiting spirits advertising, saying it violated the distiller's freedom of expression under the Charter of Rights.

Governments and regulatory bodies must recognise that spirits should be treated in the same way as beer and wine, which can be advertised on TV, said Mr Richard Fitzgerald, president of United Distillers and chairman of the Association of Canadian Distillers.

The distillers say they will now concentrate on the issue of unfair taxation. They blame high taxes for the "black market" that accounts for almost half the spirits consumed in eastern Canada.

Imetal plans heavy investment programme

This year should prove a record one for industrial investments, Mr René Miteus, chairman of Imetal, the French building and industrial minerals group, told the annual shareholders' meeting yesterday. Renter reports from Paris.

"Industrial investments should rise sharply, to FFY600m-FFY650m (\$12.4m-\$13.5m) in 1996 from FFY44m in 1994," he said. He added that the main developments would involve construction materials, kaolin, structural tubings and bituminous products sectors.

He also disclosed that Imetal was reviewing "several external growth opportunities", and that construction materials was as a sector

where the group was seeking investment opportunities abroad.

Mr Miteus disclosed that consolidated turnover in the first five months of 1995 grew 8 per cent compared with the same period in 1994. On a comparable basis, and using constant exchange rates, turnover climbed 11 per cent.

Earnings from the construction materials business were expected to improve further this year as a result of higher sales volume and a recovery in the loss-making tiles and slates units.

Miteus predicted that the tiles business would break even this year, while slates would start improving by the end of 1995. Slates, however, would still incur a loss of FFY12m in 1995, unchanged from the previous year.

Operating profit at the construction materials division rose 27 per cent to FFY274m, while turnover grew 13 per cent to FFY2.25bn in 1994.

The performance of the industrial minerals sector should be "very satisfactory" in 1995, benefiting from higher sales volume and prices. He warned, however, that a weak dollar may hurt US sales denominated in francs.

The sector saw a 13 per cent rise in operating profit, to FFY295m, and a 9 per cent increase in turnover to FFY1.89bn.

Boral to pay A\$40m for US brick maker

Boral, the Australian building materials and energy group, is buying Isenhour Brick & Tile, a North Carolina brick manufacturer, for around A\$40m (US\$28.5m), writes Nikki Tait.

The US company, described as one of the largest brick companies in the state, has two plants and a total production capacity of about 140m bricks. Annual sales are around US\$23m.

Boral, which currently has no manufacturing operations in North Carolina, will issue approximately 12m shares to the vendors in consideration.

Australian state bank ready for possible float

The Bank of Western Australia - better known now as BankWest - said yesterday it was appointing County NatWest, Hartley Poynton and Porter Western as joint lead managers for its possible stock market flotation, writes Nikki Tait. The last two are Perth-based stockbroking firms.

The Western Australian government has yet to decide on whether to privatise BankWest via a stock market float, or through a trade sale. However, the bank said yesterday the lead managers' appointment meant that float preparation could move "to an advanced stage, so that the government can make an informed choice about the merit of a float relative to a sale by tender".

The potential proceeds from the BankWest sale have been estimated at around A\$750m-plus.

Cement group upbeat

Associated Cement Companies, India's largest cement maker, said production in the first two months of fiscal 1995-96 was up 20 per cent on the year ago period, Reuters reports from Bombay. At yesterday's annual meeting, the company reported a net profit of Rs1.44m (US\$4.9m) for fiscal 1994-95.

mitting the institution to float up to 49 per cent of its stock. The government will also pad its own coffers by selling an additional 2 per cent of IDBI stock on its own account concurrent with the IDBI issue, taking its post-sale holding to 72.7 per cent.

IDBI's offering will, says Mr Khan, "see us through for quite some time", though the

institution is already quietly eyeing a possible call on the international bond market of perhaps \$450m by early next year.

Mr Khan said this week he expected IDBI to provide fully a third of the total of domestic institutional lending to India's power sector over the next five years, a figure to be put at Rs130bn.

IDBI's gross investment approvals to Indian industry by the end of March 1995 exceeded Rs900bn, with disbursements reaching Rs550bn. IDBI's total assets of Rs345.8bn make it one of the world's 10 biggest development banks and dwarf those of any other Indian institution.

However, IDBI is not strictly comparable with any other national financial institution. None other stretches as widely in the range and size of industries which it supports, or in the mix of assistance it can provide.

In 1994, it sanctioned project finance assistance worth Rs67bn, comprising rupee loans of Rs32bn, foreign currency loans of Rs10bn, under-

By Emiko Terazono in Tokyo

Mitsubishi Bank yesterday announced plans to merge with Bank of Tokyo to create the world's biggest bank, announced its parent earnings results based on Japanese accounting rules last month. These indicated that bad-loan figures had declined 5.2 per cent to Y526.4bn.

Mitsubishi is the only Japanese bank to release annual earnings figures under US disclosure rules, because of its listing on the New York Stock Exchange. It said yesterday its consolidated restructuring loans, a figure which all Japanese banks will be required to start reporting next year, fell 7.3 per cent from the previous year, to Y495.4bn (US\$5.9bn). The bank also said its group non-

performing loans at the end of March rose 2 per cent to Y627.3bn.

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While the level of Mitsubishi's problem and restructuring loans are regarded as relatively small compared with the country's other leading commercial banks, its earnings figures under US accounting guidelines are seen as a better indication of the health of the

Japanese banking industry, as Japanese disclosure rules are less strict.

The report under US rules showed that the bank's domestic non-performing loans rose 7.7 per cent to Y554.5bn, while overseas bad loans fell 31 per cent to Y62.4bn. Restructured loans to domestic companies fell 6.9 per cent to Y487.3bn, while overseas restructuring loans fell 24.6 per cent to Y7.5bn.

Group pre-tax profits for the year to March fell 25 per cent to Y536.1bn, on a 4.5 per cent decline in operating revenue to Y2,190.2bn. Net profits fell 5.7 per cent to Y35.4bn. Net unrealised gains on investment securities totalled Y351.3bn, at the end of March.

Normandy and French group agree fresh deal

By Nikki Tait
in Sydney

Normandy, the Australian mining company headed by Mr Robert Champion de Crespigny, said yesterday it had modified its complex A\$450m (US\$323.7m) deal with France's state-owned Bureau de Recherches Géologiques et Minères. The new deal allows BRCM to retain a 51 per cent interest in the Yanacocha and Cedillo projects in Peru.

These have been the subject of litigation, with BRCM's Peruvian joint venture partners - among them Newmont Mining Corporation in the US and Compania de Minas Buenaventura - claiming that the Normandy deal meant that pre-emptive rights conditions were being triggered.

Under the restructured deal, Normandy said BRCM would retain a 51 per cent interest in the Peruvian assets. As previously proposed, the balance of the assets involved in the deal would go into a new company - LaSource Compagnie Minière - which would be 60 per cent-owned by Normandy and 40 per cent by BRCM.

The deal will be completed in two stages: Normandy will first take a 49 per cent interest in LaSource - LaSource's direct interest in the Peruvian assets will then be reduced to 49 per cent; and then Normandy will lift its interest to 60 per cent.

"Both the BRCM group and the Normandy group are very confident, based on the advice of their respective Peruvian lawyers, that once the courts have had the benefit of a full explanation of the LaSource transaction, they will decide that no breach of the pre-emptive rights provisions has occurred, or will occur," said the Australian company in a report to shareholders. Normandy recently changed its name from Normandy Poseidon.

• Niugini Mining (NML) said yesterday it had completed the purchase of an additional 16 per cent interest in the Lihir gold project in Papua New Guinea from RTZ's Kennecott Explorations.

The consideration, negotiated two years ago, was US\$48m. In addition, NML paid US\$6.1m as back payment of capital costs associated with the expanded interest.

IDBI undaunted by market frailty

India's stock markets might have been in better health to welcome the country's record public share issue, the Rs21.8bn (\$894.4m) offer from the Industrial Development Bank of India. The market is more than a third off its peak of September last year, gasping for liquidity, overwhelmed by a glut of new primary issues, beset by a wave of institutional selling and apparently bereft of all but fitful buying support.

None of this, however, has deterred IDBI, the country's leading financier of industrial projects, from proceeding with the offer, which opens for seven days on July 3. "Is the timing right? Well, we need the funds," says Mr S. H. Khan, IDBI's chairman and managing director. "I'm not sure how long these market conditions will last - but from all indications the market is not going to improve quickly."

IDBI needs the funds because the government's economic reforms of 1991 have gradually eroded the concessionary state support which it has enjoyed since its foundation in 1964. State-owned institutions must now, wherever possible, stand on their own financial feet. And, for the past three years, the bank has largely managed, meeting 60 per cent of last year's funding requirements from internal accruals and the remainder from local and foreign equity.

But, with an eye on playing a central role in financing India's giant infrastructural needs, notably in the power sector, Mr Khan said the bank had no choice but to tap the equity markets.

The government itself paved the way last October by per-

mitting the institution to float up to 49 per cent of its stock. The government will also pad its own coffers by selling an additional 2 per cent of IDBI stock on its own account concurrent with the IDBI issue, taking its post-sale holding to 72.7 per cent.

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In 1994, it sanctioned project finance assistance worth Rs67bn, comprising rupee loans of Rs32bn, foreign currency loans of Rs10bn, under-

writing worth Rs7.5bn, direct subscription of Rs4bn and deferred payment guaranteed by the government.

Rs7.5bn. Mr Khan says he expects IDBI's first commercial bank, to serve the institution's existing corporate clients, to begin operations later this year. Foreign exchange services are set to expand, with IDBI's foreign currency dealing room now into its second year. The bank is developing its industrial rehabilitation unit, primarily as an agency for all-lending public sector industries.

Mr Khan says the bank is also awaiting approval from the Indian government and those of the US and Singapore to establish its first overseas representative offices.

The premium issue price of IDBI's shares - at Rs130 against present book value of Rs75 - reflects IDBI and its lead managers' belief that the market will show faith in the institution's ability to adapt.

Analysts note that the bank is losing the boost to its lending margins from long-term concessional government support. They also point out that its funding costs will benefit for the next three or four years from a favourable mismatch of maturities. While IDBI's past borrowings have typically been at a maturity of 15 or more years, its present average lending period is eight to 10 years.

The bank's results, due later this week, are expected to show a 26 per cent rise in after-tax profits, to Rs7.7bn against Rs6.1bn for 1993-94.

On such expectations, and given IDBI's strong balance sheet, past profits, size and market position, S. G. Warburg recently reckoned Rs130 to be an "extremely attractive valuation". Come July, IDBI will be at a maturity of 15 or more years, its present average lending period is eight to 10 years.

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COMPANY NEWS: UK

Hardware and material handling behind 29% underlying advance FKI seeks £137m for expansion

By Tim Burt

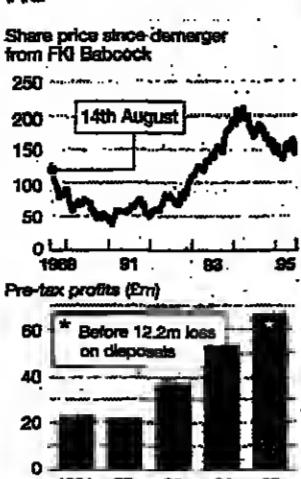
FKI, the fast-growing UK engineering group, has pledged to accelerate its expansion strategy by launching a £136.6m (\$214.5m) rights issue to cut borrowings and fund acquisitions.

The company, which has acquired 15 companies in three years, said the proceeds would reduce net borrowings from £156m to about £20m, cutting gearing from more than 70 per cent to 5 per cent.

Mr Jeff Whalley, chairman, said FKI wanted to relieve pressure on its balance sheet following its \$84.4m acquisition earlier this year of Andura, the US lifting equipment manufacturer. "We were becoming boxed in with the high level of gearing and were finding it uncomfortable."

FKI is issuing 11.2m shares on a 1-for-4 basis at 125p, a 15.5 per cent discount to yesterday's 148p closing price. Once the rights issue has been completed, Mr Whalley hinted FKI would move to make further acquisitions. The group is considering four companies and has not ruled out a hostile bid. Some analysts predicted FKI would opt for a bolt-on acquisition.

FIG



Jeff Whalley: disappointing year at UK engineering arm

Rapid growth in FKI's hardware and material handling divisions fuelled a 29 per cent increase in underlying profits to £57.6m in the year to March 31. Operating profits rose by a similar margin from £60.4m to £78m, of which £23.7m was generated in North America. The heavy reliance on overseas profits forced the group to write off £2m of advance corporation tax.

The figures, however, were dented by a £12.2m loss on the disposal of three subsidiaries to Wellman, the engineering group. That pegged headline pre-tax profits at £55.4m for the year to March 31.

The figure was also dented by £4.2m of restructuring charges. Mr Bob Beeston, chief executive, said: "There will be a similar charge this year and we will continue to drive down headcount."

Mr Jeff Whalley, chairman, said the group had also been handicapped by a disappointing year at its UK engineering arm, where profits fell from

£16.1m to £8m, mainly because of sluggish orders at Bristol Babcock UK, its transformer business. Its modest performance was offset by rising profits in the group's three other operating divisions.

The group had tried to restore UK profits by cutting more than 1,000 jobs and selling non-core businesses.

The offer documents for the rights issue, underwritten by

N.M. Rothschild, showed that Mr Beeston had moved from a three-year to a two-year rolling contract, was on a basic salary of £250,000 with potential bonuses of £125,000. He has also been promised damages of £750,000 if the company is taken over and his contract terminated. Mr Whalley, meanwhile, has been awarded a 10.4 per cent pay increase rise from £160,000 to £225,000.

The company also revealed it was interested in bidding for the pumped storage arm of the National Grid, although it said the business was difficult to evaluate.

Discussions with National Power and PowerGen to buy any of their generation units have come to an end.

The MMC was asked to report after Hydro rejected the regulator's suggestions for its prices last September.

Lord Wilson of Tillyorn, Hydro chairman, said yesterday that the regulator had failed to allow the company enough income to keep improving it.

By Michael Smith

Scottish Hydro-Electric said yesterday it would be another two months at least before it knew price controls for the next five years as it revealed a 10.8 per cent dividend increase.

Mr Roger Young, chief executive, said that although the Monopolies and Mergers Commission report on its distribution and supply prices was expected today, the regulator would not be constrained precisely by what it recommended. Prices may not be determined until the autumn, he said.

CONTRACTS & TENDERS

ANDHRA PRADESH STATE ELECTRICITY BOARD

VIDYUT SUDHA, HYDERABAD - 500 049, INDIA.

AN INVITATION FOR SETTING UP OF PRIVATE SECTOR GAS/NAPHTHA/LSHS/FURNACE OIL BASED POWER PROJECTS IN ANDHRA PRADESH, INDIA

Andhra Pradesh State Electricity Board (APSEB) invites proposals from prospective private promoters to set up Gas/Naptha/LSHS/Furnace Oil based short gestation power projects totalling to around 2000 to 3000 MWs at various locations in Andhra Pradesh, India.

Size of Individual Plants : To be offered by bidder. The minimum capacity of the power project offered shall be 100 MWs (Hundred Megawatts).

Choice of Fuel and Transportation of Fuel : To be decided by the bidder.

The bidder has to take full responsibility to tie up the fuel linkage. Fuel can be imported for these projects. However, the bidder will have to either tie up or build the infrastructure requirements for fuel transportation and storage etc.

Gestation Period for Project : Within 1 1/2 years from date of signing of the Capacity and Energy Agreement which is expected to be signed within 3 to 4 months from the date of opening of bids.

Location : The locations identified are :

(1) Hyderabad (2) Krishnapatnam (3) Nizamabad (4) Suryapet (5) Renigunta (6) Jagatpura (7) Kakindaka (8) Vijaywaram (9) Warangal (10) Vizag (11) Muddenahalli (12) Kurnool (13) Varmagiri

Long Gestation Period Projects : Proposals for Coal based power projects are also invited from the prospective promoters giving details of the locations identified by them. The promoters should also be prepared to take over such of the distribution zones as may be allotted to them.

Cleanliness : The bidder will be responsible for obtaining all the clearances for the proposed power project.

Bidding Process : A two stage process will be followed as given below :

(1) Request for Qualification (RFO) bids containing details on the technical and financial strengths of the bidders. (2) Request for Proposal (RFP) bids containing detailed technical and commercial aspects of the project and a firm price of power.

Sale of Power : APSEB will purchase 80% capacity of the power station until such time when distribution companies come up to purchase power, but will retain dispatch rights for the balance capacity. The price of power to be quoted by the bidder should be based on the two-part tariff mechanism of the Government of India at a minimum plant load factor of 80%. The norms given in the Government of India guidelines are to be treated as ceilings and the bidder is expected to offer improved norms for calculating the price, which will be composed of a fixed charge and a variable charge component. The unit price has to be quoted on a firm basis with variations allowable only due to inflation indices for fuel (to be specified by the bidder). The APSEB Board will enter into Interim Capacity and Energy Agreement with the prospective promoters.

However, the prospective promoters shall note that neither the State Government nor the Central Government will guarantee the payment obligations of the APSEB Board towards the power purchased from these projects. The prospective promoters will have to take over the distribution on their own in assigned areas or sell power to other distribution companies as and when they are established. The Capacity and Energy Agreement may be assigned by the APSEB to a Distribution Company, as and when such Companies are set up.

Submission of Bids : The interested bidders can collect the Tender documents giving details, against payment of Rs. 1000/- in the form of Demand Draft payable in favour of Pay Officer, APSEB, Hyderabad - 500 049 (India) from The Chief Engineer (Planning), Andhra Pradesh State Electricity Board, Vidya Sudha, Hyderabad - 500 049 (India). The tender documents will be available for sale from 1.6.1995.

Interested bidders should send in their proposals on or before 12.00 noon on 31.7.1995 to the above address accompanied by a processing fee of Rs. 2.00 Lakhs in the form of Demand Draft in favour of Pay Officer, APSEB, Hyderabad - 500 049, India and a refundable EMD of Rs. 100 Lakhs. (Rs. 20 Lakhs in the form of Demand Draft in favour of Pay Officer, APSEB, Hyderabad - 500 049, India drawn on any Scheduled Bank in Hyderabad and Rs. 80 Lakhs in the form of Bank guarantee)

APSEB reserves the right to reject all or any of the proposals without assigning any reasons therefor.

Fax : 91-040-393317 Telex : 0425-631 APEB IN Phone : 91-040-317632 EPABX : 91-040-396000 Extn. : 3489 (R.O. No.171/95)

Chief Engineer (Planning) Andhra Pradesh State Electricity Board, INDIA.

Goldsborough rises 68% but shares dip

By Motoko Rich

Shares in Goldsborough Healthcare, the nursing homes, hospitals and homecare group, fell 1p to 15p by a 68 per cent increase in pre-tax profits failed to meet analysts' expectations.

Pre-tax profits in the six months to April 2 rose from £1.91m to £3.2m on turnover up 26 per cent to £44.37m (£21.92m). The company declared its first dividend of 9.6p.

Mr Graham Smith, chief executive, revealed the group was at an "advanced stage of negotiations on a number of potential acquisitions," and said the company was comfortable with its gearing of 50 per cent. It would be satisfied if the level rose to 75 per cent. He said the acquisitions under

consideration could be funded from the group's internal finances.

Margins in the care homes division fell slightly from 24.6 per cent to 23.2 per cent as occupancy rates dropped to 94 per cent (95 per cent) and the group incurred start-up costs on the opening of new homes.

The division posted a 8.2 per cent rise in operating profits to £3.15m.

Mr Smith said local authorities were squeezing budgets in the first half after having run out of money in the second half. This had pushed down occupancy rates. He said the group would add 87 beds by the end of the year.

Margins in the acute hospital division rose to 24.5 per cent (24.2 per cent) reflecting the benefit of first-time contributions from acquisitions.

The purchase represents a further rationalisation in a highly fragmented sector where more than 600 companies share an estimated turnover of £7.8bn last year.

Combined annual sales of more than £500m would make the merged group the second largest selling builders' merchant, behind Wolseley which

had turnover of nearly £600m last year.

Mr Ian Mills, Graham's chief executive, said: "More and more customers are seeking to use their purchasing power to negotiate preferential deals with large national suppliers. A large product range and geographic spread are essential to succeed in the market; hence the purchase of Erith."

Graham has been appointed as sole supplier of building materials to Ford UK, while British Gas recently announced a preferred list of nine merchants, including Graham, to supply its domestic heating installation business.

Householders seeking preferential deals include Tarmac and Bryant.

"I would expect the three largest merchants to account

Further provision puts NFC into loss

By Geoff Dyer

NFC, the transport and logistics group, is taking a further £25m (£55m) restructuring provision leaving it with a small interim pre-tax loss.

The provision is on top of the £50m set aside for restructuring over the last two years and NFC said there would be job losses across the group.

Mr Gerry Murphy, chief executive, said: "Few companies have been more analysed than NFC. There will be no more navel-gazing. It is now time to get on and act."

Although he has officially been in the job for only nine days, he said that he had approved all the restructuring decisions.

The second interim dividend was maintained at 1.5p, although this was covered only 1.2 times by pre-exceptional earnings. Sir Christopher Bland, who took over as chairman in December, said that over the next 2-3 years dividend cover would be increased to two times.

New provisions worth £57m were outlined yesterday, described by Sir Christopher as "the last bite of the cherry", however £22m of unspent provisions from last year were carried forward.

The proposed actions include rationalising the property portfolio, cost-reduction and writing off non-performing assets. Mr Murphy described them as "remedial" measures, and said they were not paving the way for the group to exit from certain businesses.

Pre-tax profits last time of £50.7m became losses of £200,000 after the provision.

Losses at the European logistics division increased to £4.6m (£1m), reflecting last year's acquisitions in Germany. Mr Murphy said that provision had been made for leaving some lossmaking contracts in Germany and Spain and a new senior management team had been appointed.

The moving services division recorded a £2m loss, against profits of £1.1m, due to bad debts and increased operating costs in North America.

Market capitalisation is likely to be about £120m-£140m on the first day of trading.

JJK last week appointed Mr Robert Horton, the former chairman and chief executive of British Petroleum, as non-executive chairman. He will be paid £2,000 a month, plus £1,250 a day when on company business.

Earlier this week JJK announced that Pecten International, the exploration and production arm of Shell Oil of the US, was to take a 40 per cent share in its half of a venture in Georgia.

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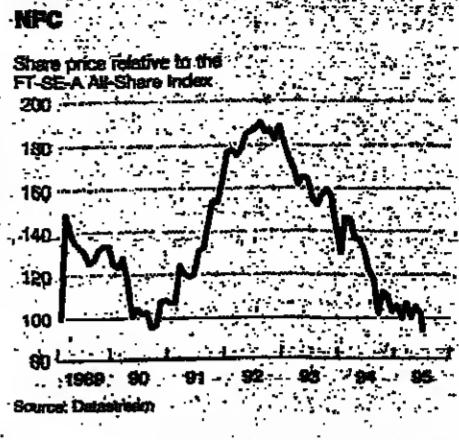
LEX COMMENT

NFC

For a chairman and chief executive announcing yet another disappointing set of results, NFC's Sir Christopher Bland and Mr Gerry Murphy are in a relatively comfortable position. Both are new to their jobs and can present the company's slide into loss, after exceptions, as a final legacy of the previous management. Their justification for maintaining an uncovered dividend is fair enough. They believe profits will be sufficient to cover dividends twice over within three years. This would require 1995 profits of at least £15m. which appears feasible.

NFC's revenues are still rising, but margins have been squeezed, as lucrative logistics contracts signed in the 1980s have come up for renegotiation. The company believes margins are now stabilising, as the bulge of renewals passes. Still, there is little chance of any price recovery, so the strategy for restoring margins is to slash the cost base. Heavy provisions against restructuring give plenty of scope for getting rid of surplus property and staff. The new managers will not balk at wielding the knife, but the skill lies in not impinging on the company's revenue growth.

The company has disappointed often before.



Having admitted last year's German acquisitions were a mistake, it remains to be seen whether they can be straightened out. Pressure on margins could persist, and some businesses may be vulnerable to economic slowdown. The new management may be taking the right actions, but recovery is far from assured.

TLG holders cut stakes in placing

By Motoko Rich

The two largest investors in TLG, the industrial lighting equipment manufacturer that floated in November, have placed 57.5m shares at 150p a share.

Shares in TLG rose 8p to 150p yesterday as Thorn EMI, the music and retailing group that sold TLG to the management in 1991, and Lighting Limited Partnership, a venture managed by Investcorp, the Bahrain-based investment bank, announced they had found buyers for all the shares offered.

Some 50.2m of the shares were sold by LLP, leaving it with a 19.2 per cent stake. LLP has agreed not to dispose of any further shares until TLG publishes its interim results.

Orange oil buoys Treatt

A £300,000 gain from orange oil stocks helped Treatt, the US-based supplier, blender and distiller of essential oils and aromatic chemicals, to report pre-tax profits of £1.1m, up from £1.02m (£1.02m) in 1994. Net assets were 65 per cent ahead at £13.5m, helped by the doubling of distillation capacity at its Suffolk plant last August ...

orange-juice aromas. Last year it quadrupled sales.

In the six months to the end of March group pre-tax profits were £1.92m (£2.56m). Sales were 65 per cent ahead at £13.5m, helped by the doubling of distillation capacity at its Suffolk plant last August ...

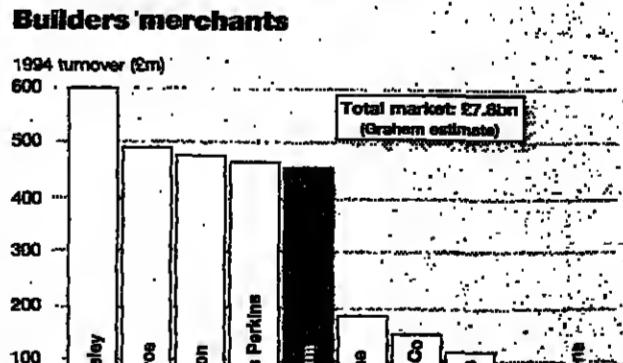
Market capitalisation is likely to be about £120m-£140m on the first day of trading.

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Builders' merchants



COMMODITIES AND AGRICULTURE

US to suspend set-aside as cereal output sags

By Laurie Morse in Chicago

This season's US wheat harvest will be so small that producers will be allowed to plant freely again this fall, without set-aside constraints, the US secretary of agriculture told a congressional committee on Tuesday.

Mr Daniel Glickman, said in testimony to the Senate agriculture committee that his "guidance" to wheat farmers was that there would be no set-aside requirements for farmers participating in federal farm programmes next year. The US Department of Agriculture usually announces its wheat set-aside requirements on June 30. However, because Congress is rewriting farm programme legislation this summer, the official set-aside announcement must wait until a new Farm Bill is signed.

MARKET REPORT

Profit-taking in New York reverses coffee price decline

Profit-taking in New York reversed the downturn in COFFEE prices yesterday but traders said the short-term direction of the market was still downwards.

The September robusta contract at the London Commodity Exchange dipped to \$2.645 a tonne at one stage before rallying to close at \$2.710, down just \$3 on the day.

Traders said New York operators had been expected to buy back some of the 7 cent losses seen late on Tuesday in anticipation of a bearish US Department of Agriculture estimate of the coming Brazilian crop. In fact the estimate proved neutral.

The USDA forecast Brazil's 1995-96 crop at 17.6m bags (60kg each), compared with the mid-point in its previous forecast of 17.45m. It put world

green bean output at 87.4m bags, down from 93.8m bags last year largely as a result of the 1994 frosts and drought in Brazil. Colombian production was seen at 12.5m bags.

LCO COCOA futures prices were also buoyed in the afternoon by a firmer than expected tone in New York and regained most of their early losses.

Traders said they expected cocoa prices to fall gently in coming days as speculators extend short positions. But that could lead to sudden volatility if stop-loss orders were deliberately triggered by strong operators so that they could buy back on the consequent falls.

London white SUGAR prices were mixed in afternoon trade with the August contract faltering and reversing earlier gains.

Compiled from Reuters

The USDA this week also sharply reduced its projection for this year's maize harvest, dropping its production estimate to 7.9bn bushels (56lb each), down 8 per cent from last month and more than 20 per cent below last year's bumper harvest. The new figures would leave the US holding just 7.45m bushels of maize in reserve immediately before next year's harvest. That amounts to about a month of consumption, based on the USDA's usage estimates.

Mr Ed Allen, a USDA wheat specialist, said heavy rains in Oklahoma and too much moisture in other winter wheat growing areas had caused crop deterioration. In the US spring wheat belt, rain had delayed plantings. In the spring wheat areas, we've had to reduce our estimates for planted acres," Mr Allen said.

Price rise brings Cornish tin close to break-even

The recent strength of tin prices, with the market rising to the highest levels for nearly three years this week, means that the UK's sole tin mine, at South Crofty in Cornwall, is nearing break-even, reports Reuters.

"As far as we are concerned [the market's strength] is all to the good," Mr Kevin Ross, South Crofty's managing director, said yesterday. "But I am

not predicting that we will be in profit. There is significant market volatility."

On Tuesday the London Metal Exchange three months delivery tin price hit a high of \$6,780 a tonne in response to concern about a "squeeze" on immediately available supplies. By last night's close it had eased back to \$6,555.

Mr Ross said that the mine in Cornwall, in which Canada's

South Crofty Holdings, has a majority stake, would break even at around \$4,100 a tonne, just below yesterday's LME close.

He said that the fundamental outlook for the market had improved considerably since the last quarter of 1994. But that has changed this year as the country is showing signs of adhering to a 20,000-tonne export limit, Mr Ross said.

In addition, disposals from

the US Defence Logistics Agency's strategic stockpile are running at only 6,000-7,000 tonnes a year, half the maximum 12,000 tonnes allowed, as consumers are reluctant to take its ageing tin. This has resulted in significant offtake from the LME stockpile, which is now down from last September's 7-year high of 32,405 tonnes to 16,615 tonnes, the lowest levels since February 1993.

Setback for shrimpers in battle of the mangroves

Ecuador has protected a vast area, much to the chagrin of the industry, writes Raymond Collit

The Ecuadorian shrimp farming industry, the world's second largest, is embroiled in an environmental controversy that could severely limit future growth in the sector. Environmentalists are accusing the industry of recklessly destroying the mangrove around the country's Pacific coast.

Shrimp farmers, who have themselves suffered losses through water pollution, which they claim stems from pesticides used on banana plantations, admit to some destruction of mangroves. But they say that claims by environmentalists are exaggerated and that control mechanisms are being implemented.

The conflict intensified after a call for an international boycott of Ecuadorian shrimp, by the environmental group Action Ecologica. Says Gina Coavez, co-founder of the group: "The way shrimp farms are run today, they are not environmentally sustainable. We want consumers worldwide to know that by consuming Ecuadorian shrimp they are helping to destroy the mangrove".

Yet Juan Xavier Cordovez, the president of the Chamber of Aquaculture, says that such claims are completely unfounded. Referring to the call for a boycott he said: "Such behaviour is irresponsible and could cause a detrimental effect not only to the shrimp industry but to the entire Ecuadorian economy".

The shrimp industry is the country's second most important non-petroleum source of income

try's second most important non-petroleum source of income; but at the same time it is facing strident attacks from environmental groups, often backed by foreign aid organisations, who are frustrated with its inaction on a problem that began over half a decade ago.

Much of the mangrove in the Gulf of Guayaquil, where the majority of the shrimp farms are located, appears still to be intact. Smaller mangrove forests in other estuaries further north, such as in Bahia and Muisne, are largely destroyed.

Almost all participants in the debate agree on the importance of mangrove in protecting the coast. Mangrove forest is home to important species of marine life and acts as a natural barrier to the eroding

forces of the ocean.

In March of this year the government declared a vast area of mangrove in the northern province of Esmeraldas as a protected area. As a result, several multi-million dollar shrimp farming projects had to be put on hold. Yet far from putting an end to the controversy, it simply stoked the fire.

The island of Panamal, within the protected area, has become a principal battleground in the war between conservation and development. Poverty among the native fishermen is oppressive; health services non-existent; and there is no electricity. Shrimp farms promise hundreds of jobs.

The underlying issue of course is whether shrimp farming is indeed compatible with the conservation of mangrove. Industry representatives say it is, because the pools in which shrimp larvae are cultivated can be constructed on the salt flats or higher elevations interspersed within the mangrove forest.

Says Ruy Quevedo, one of the entrepreneurs who was about to launch a large shrimp farm before the area was declared a reserve: "The industry has become more environmentally conscious in the last years. We now have the capital, technology, and interest to operate in such a way as to protect the mangrove".

The projects presented by a group of environmentally conscious entrepreneurs may

indeed offer a viable compromise, but they are not representative of the entire sector. Hundreds of small to medium-sized shrimp farmers, lacking resources and technology, continue to cut down mangrove only 100km south of Panamal in the estuary of Muisne.

Although the state is now intent on preventing the illegal destruction of mangrove by regulating and controlling the use of coastal resources, the odds are not in its favour. The state often does not have the ability to enforce the law, and when it does, corruption comes in the way.

When the shrimp farmers are caught cutting down mangrove, they go to jail for a day, pay off the authorities, and continue cutting the following day," says Lurdes Prochno of the local environmental group Fecoc.

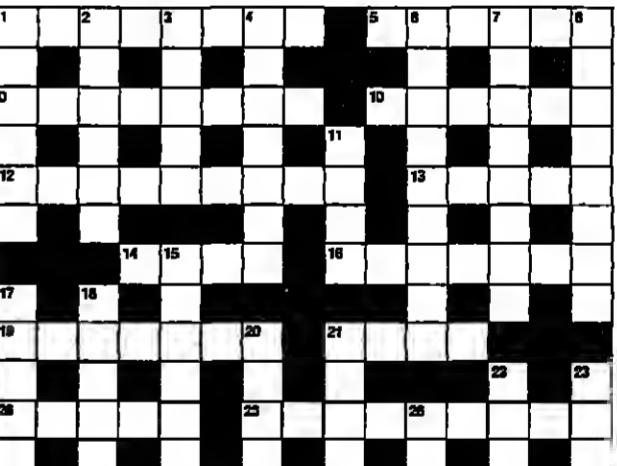
Industry minister Maldonado says: "There has never been any long-term [environmental] policies but rather circumstantial reactions by the state". He adds that the large "informal" sector within the economy exacerbates the difficulty of enforcing policies.

A Chamber of Aquaculture itself proposed environmental and technical education programmes to avoid indiscriminate mangrove destruction. Until these bear fruit, however, a more immediate solution lies in the formation of a multi-sector surveillance committee that ensures the industry adheres to the new guidelines.

JOTTER PAD

CROSSWORD

No.8,788 Set by QUARK



LONDON TRADED OPTIONS

Strike price 5 tonne — Calls — Puts —

■ ALUMINIUM (92.7%) LME

Sep 1700 121 55 58 97

Oct 1750 122 55 60 121

12000 72 100 107 148

■ COPPER Grade A LME

Sep 1240 124 84 27 11

Oct 1290 125 111 51 115

2900 72 97 173

■ COFFEE LCE (5/tonne)

Jul 1240 125 102 128 147

Aug 1290 126 130 142 157

12000 73 100 147 168

■ COFFEE (COC) (50/tonne)

Jul 1240 125 102 128 147

Aug 1290 126 130 142 157

12000 73 100 147 168

■ PORK BELLY CME (40,000lbs; cents/lbs)

Aug 38,000 42,500 39,700 37,900 3,700 1,201

Sep 44,825 47,000 45,050 42,900 7,242 2,068

Oct 41,575 41,725 41,900 41,900 6,913 2,082

Dec 42,800 43,150 42,625 42,350 5,226 2,105

Apr 43,300 43,175 43,100 43,250 2,472 2,041

May 42,550 43,000 43,100 43,250 3,662 3,735

Total 58,673 65,000 64,775 63,775 7,224 2,500

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Aug 38,000 42,500 39,700 37,900 3,700 1,201

Sep 44,825 47,000 45,050 42,900 7,242 2,068

Oct 41,575 41,725 41,900 41,900 6,913 2,082

Dec 42,800 43,150 42,625 42,350 5,226 2,105

Apr 43,300 43,175 43,100 43,250 2,472 2,041

May 42,550 43,000 43,100 43,250 3,662 3,735

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■ PORK BELLY CME (40,000lbs; cents/lbs)

Aug 38,000 42,500 39,700 37,900 3,700 1,201

Sep 44,825 47,000 45,050 42,900 7,242 2,068

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May 42,550 43,000 43,100 43,250 3,662 3,735

Total 58,673 65,000 64,775 63,775 7,224 2,500

■ COFFEE 'C' OSCE (37,500lbs; cents/lbs)

Aug 14710 1455 151,00 145,10 14,755 5,860

Sep 148,65 1460 152,00 148,10 13,255 5,862

Oct 150,20 1475 154,00 151,10 13,274 5,863

Nov 151,75 1490 156,00 151,50 2,974 1,047

Dec 153,30 1505 158,00 153,75 2,985 1,047

Jan 155,85 1520 160,00 155,75 3,000 1,057

Feb 157,40 1535 162,00 157,50 3,015 1,067

Mar 159,95 1550 164,00 160,75 3,030 1,077

Apr 161,50 1565 166,00 162,50 3,045 1,087

May 163,05 1580 168,00 164,75 3,060 1,097

Jun 164,60 1595 170,00 166,75 3,075 1,107

Jul 166,15 1610 172,00 168,75 3,090 1,117

Aug 167,70 1625 174,00 170,75 3,105 1,127

Sep 169,25 1640 176,00 172,75 3,120 1,137

Oct 170,80 1655 178,00 174,75 3,135 1,147

Nov 172,35 1670 180,00 176,75 3,150 1,157

Dec 173,90 1685 182,00 180,75 3,165 1,167

Jan 175,45 1700 184,00 182,75 3,180 1,177

Feb 176,95 1715 186,00 184,75 3,195 1,187

INTERNATIONAL CAPITAL MARKETS

Germany falls on Bundesbank caution

By Graham Bowley in London
and Lisa Bransten in New York

Disappointment over the Bundesbank's decision to leave interest rates on hold at yesterday's council meeting pushed German government bonds lower yesterday.

Although the market consensus was for no change in monetary policy at yesterday's meeting, traders reacted negatively to comments by council members, including Dr Otfried Ising, the chief economist, which suggested that the central bank would continue to be cautious towards interest rates.

A weaker US Treasury market also acted as a downward influence, as bond prices across most of the European markets slid lower.

The yield on the 10-year benchmark bond rose to 6.74 per cent, while the September bond futures contract traded on Liffe in London fell back to 94.02, down 0.24 on the day.

The 10-year bond yield spread over US Treasuries settled at around 51 basis points.

Traders also cited some selling by US hedge funds of their European government bond holdings as another reason for falling prices across Europe.

"This selling hit the gilt and bond market earlier in the week and the French market yesterday," said Mr Ian Williams, gilt specialist at Kleinwort Benson in London.

The 7.5 per cent 2005 French government bond fell 0.40 to 100.09. The September notional futures contract on Matif settled at 114.96, down 0.52.

Dealers said that attention today will be on the G7 meeting in Canada, although trading is expected to be quiet with German financial markets closed for a holiday.

■ The weaker tone in Europe and the US dragged UK government bonds lower, in spite of supportive economic data.

Gilts were hardly moved by the announcement by Mr Kenneth Clarke, the chancellor, of the extension of the government's existing target for UK inflation beyond the next general election.

The announcement came in after-hours trading and was largely in line with traders' expectations.

GOVERNMENT BONDS

■ It is fairly neutral for the market," said Mr Stephen Hanan, director of research at IBI. "It does not suggest any easing or watering down of its commitment to keeping inflation down."

Gilts were supported in early trading by labour market statistics showing muted average earnings growth, but prices fell back in later trade. The long gilt future on Liffe was down 51 at 106.4 in late trading. The

10-year yield spread over bonds was at 146 basis points, while the spread over US Treasuries stood at 197 basis points.

■ US Treasury bonds yesterday gave up some of the gains made after Tuesday's rally as traders took profits and tried to assess the course of monetary policy.

By midday the benchmark 30-year Treasury was down 51 at 113% to yield 6.68 per cent. At the short end of the maturity spectrum, the two-year rate was 0.7 lower at 100.5 to yield 5.645 per cent.

The economic data released yesterday added to the recent string of figures showing inflationary pressures easing. But the figures did little to boost bonds because all of the news related to economic activity in the first quarter.

Bonds briefly moved higher after the Commerce Department reported April business inventories up 0.8 per cent, less than a 3.4 per cent rise.

Attention was focused on May capacity utilisation and industrial production data due from the US census bureau in the second quarter.

The dollar gave little in the way of direction for the market. At midday it was mixed against the yen and the D-Mark, trading at Yen 84.36 and DM1.4083 against Yen 84.28 and DM1.4083 late on Tuesday.

CWB sells 70% stake in Swedish textile group

By Antonia Sharpe

CWB Capital Partners, the London-based acquisition fund which specialises in buying market-leading manufacturing companies in northern Europe, yesterday raised \$33m when it sold off 70 per cent of IRO, the Swedish textile production manufacturer in an international equity offering.

CWB bought IRO, the world's biggest producer of yarn feeding equipment from Handel och Industri, the industrial holding company of Sweden's Svenska Handelsbanken, last December.

CWB and a consortium of shareholders retain ownership of 25 per cent of the company's shares, with management owning the remaining 5 per cent. CWB and the consortium will reduce their share of the equity to 15 per cent if the "greenbox" is exercised.

Mr Knut Ramel of Merrill Lynch, which arranged the sale, said other medium-sized Swedish companies could look abroad to raise money. "There is increasing international interest in these types of companies," he said.

In recent UK deals, associations have borrowed long-term funds at 150 to 170 basis points over gilt rates.

The loan is unsecured for the initial period, to make it easier for Sanctuary to draw down.

Afterwards, security will comprise a floating charge, to be replaced by fixed charges on residential property.

The fixed charges will provide an asset cover ratio of 125 per cent, which Hambros said

was "amongst the lowest seen in the sector".

Housing associations have borrowed about £7m since the Housing Act of 1988 made them partly reliant on private capital.

Mr Derek Gordon, a Hambros manager, said: "The market at the moment is the most beneficial housing associations will have seen ever."

He said there was "a huge supply of funding" as banks were undercut, and "little demand for loans, as associations had seen a fall in government grants from £1.8bn in 1993-94 to £1.15bn this year."

Mr David Knowlton, finance director of Sanctuary, said the interest rate on the loan was "30 basis points inside the previous facility we had with NatWest".

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The association, which manages more than 21,000 homes and is based in Herford, is among the 10 largest housing associations in the UK.

Sanctuary housing group raises £50m

By Simon Kuper

Hambros Bank has arranged a \$30m loan for Sanctuary Housing Association. The bank claims this is the largest loan ever made to a British housing association.

Mr Gordon, a Hambros manager, said: "The market at the moment is the most beneficial housing associations will have seen ever."

He said there was "a huge supply of funding" as banks were undercut, and "little demand for loans, as associations had seen a fall in government grants from £1.8bn in 1993-94 to £1.15bn this year."

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British Gas offers to buy back 50-year issue

By Antonia Sharpe

British Gas yesterday offered to buy back the £200m offering of 20-year eurobonds issued at the beginning of last year and replace them with a £200m issue of 30-year eurobonds.

Tax was widely seen as the main motive behind the deal, which is being arranged by HSCC.

INTERNATIONAL BONDS

British Gas stands to make a tax-free gain of as much as £36m if it buys back all the 30-year bonds, which have been issued at par but have since dropped to about 82.

The buy-back comes two weeks after the Inland Revenue announced changes to the taxation of UK government bonds and corporate bonds.

At present no capital gains tax is charged on profits made when bonds are bought or sold. However, the Inland Revenue proposes to tax total returns earned on holdings of all bonds, charging tax on both interest payments and on any capital gain.

An official at British Gas acknowledged that the exchange worked in favour of the company but said tax was not the main reason but the need for new funding. If all the old bonds are bought back, British Gas will increase its net borrowing by £40m.

HSCC said the buy-back provided a way out for holders of the 30-year bonds, which have become illiquid. HSCC is offering to buy them back at a yield of 47 basis points over the 9% per cent gilt due in 2017.

They had traded at a margin of 59 basis points before the deal was announced.

Syndicators managers said investors were likely to sell back their bonds but it remained to be seen whether they would all switch into the new 30-year issue, which looked expensive at a margin of 53 basis points over gilts. They noted that 30-year bonds issued by Eastern seen by some as a better credit, were trading in the high 80s.

Elsewhere, there were rumblings that Tennessee Valley Authority had jeopardised the success of its debut global

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fee %	Spread bp	Book runner
WORLDPAC International Finance*	300n	2.50	100.175	Jul 2001	0.275	-	Mitsubishi Finance Int'l
STERLING	British Gas(4)	200	61	94.11	Jun 2025	0.255	+530/44-17 HSBC Markets
D-MARKS	Dico International Finance	100	7.125	102.35	Jul 2005	3.00	- DG Bank
FRENCH FRANCS	Santander*	3.5bn	4.00	61	Jan 2000	2.50	- Société Générale
GERMAN DOLLARS	Ford Motor Credit Corp.	200	6.375	99.94	Jul 2000	0.30	+409/4-00 ABN Amro Hoorn Govt
CANADIAN DOLLARS	Province of New Brunswick	150	7.625	99.53	Jul 2001	0.32	+280/41-00 Wood Gundys
FRONTIER	GEC Canada	100	8.00	99.15	Jul 2005	0.25	+159/4-04 Hambros Bank

Final terms, non-callable unless stated. Yield spread over relevant government bond at launch supplied by lead manager. *Unlisted. F/F fixed or re-priced price less shown at re-offer level. L: Pricing level at Spain's call option applies. a) Fixed today, b) Conversion price; F/F/310. Callable from 1/1/99, subject to 110% protection, at FP/335.79. Redeemed on 1/1/00 at FP/344.21; b) FP/310 per bond.

Offered by raising it to 82% from \$1.5bn.

Although the spread was holding, dealers said there were loose bonds in the market. TVA said the increase reflected the strong demand for the bonds.

Meff cleared for US investors

By Graham Bowley

Meff Renta Fija, the Spanish futures and options exchange based in Barcelona, has obtained permission from the US Commodity Futures Trading Commission to allow US investors to trade its options, writes Graham Bowley.

The deal, arranged by National West Markets and the Bank of Ireland, replaces existing borrowings. The new terms reflect the company's improved financial health, a spokesman said.

The loan will also be used for the expansion of Waterford Crystal and Wedgwood's

ceramics business, including possible future acquisitions.

The company will pay a margin on the facility of 67 basis points over the London interbank offered rate (Libor) plus 100 basis points.

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The loan will also be used for the expansion of Waterford Crystal and Wedgwood's

Waterford Wedgwood loan

By Graham Bowley

Waterford Wedgwood, the Irish glass and crystal group, yesterday signed a £180m five-year multi-currency syndicated loan with a group of 18 international banks.

The deal, arranged by National West Markets and the Bank of Ireland, replaces existing borrowings. The new terms reflect the company's improved financial performance, and a commitment fee of 322 basis points, which may fall to 25 points.

Mr Richard Barnes, group finance director, said: "Waterford Wedgwood is delighted to put in place such an important facility, offering significantly improved flexibility and favourable terms to the group."

WORLD BOND PRICES**BENCHMARK GOVERNMENT BONDS**

	Coupon	Red Date	Price	Days' change	High	Low	Week ago	Month ago
Australia	7.50%	07/05	91.100	-0.680	8.65	8.74	9.37	9.37
Austria	7.00%	05/05	100.500	+1.20	6.63	6.78	7.75	7.75
Belgium	8.50%	03/05	94.020	+0.020	7.35	7.15	7.75	7.75
Denmark	7.00%	12/04	91.800	-0.280	8.23	8.04	8.55	8.55
France	7.75%	04/05	102.500	-0.250	7.05	6.85	7.20	7.20
Germany	6.67%	04/05	100.900	-0.40	7.48	7.32	7.65	7.65
Ireland	6.67%	04/05	100.900	-0.300	6.74	6.54	8.98	8.98
Italy	5.20%	01/05	112.100	-0.380	12.16	11.88	12.25	12.25
Japan	No 129	04/05	118.450	-0.340	12.21	12.09	12.81	12.81
No 174	4.600	05/04	112.130	-0.370	12.16	12.09	12.81	12.81
Netherlands	7.00%	06/05	103.900	-0.140	8.86	8.67	9.04	9.04
Portugal	11.67							

try housing
aises £50m

MARKETS REPORT

Buba comments on interest rates worry markets

Markets were yesterday unnerved by comments from senior Bundesbank officials which prompted a rethink on the outlook for German interest rates, writes Philip Gash.

The central bank's decision to leave rates on hold after its council meeting was not unexpected, but comments from Mr Otfmar Issing, the chief economist, that inflation dangers remained, while M2 was rising, were taken as hawkish by the market.

The prospect of German rates staying unchanged longer than had previously been anticipated put the dollar under some pressure. It finished in London at DM1.3974 from DM1.4044, and at Y84.255 from Y84.16.

The overall currency market picture remained one of range trading ahead of the G7 summit, which starts in Paris tomorrow. With the dollar stuck in a fairly narrow range, little independent action is likely on the European crosses,

or from sterling.

The D-Mark was slightly lower in Europe, finishing at FF7.508 against the French franc from FF7.521.

Sterling had a good day, making up ground against both the D-Mark and dollar. It closed at DM2.2496, from DM2.2384, and at \$1.6099 from \$1.5946. The trade weighted index rose to 84.7 from 84.3.

■ A hint of what to expect from the Bundesbank came early in the day when Mr Ernst Weltev, president of the regional central bank in Hessen-Thuringen told reporters:

"Interest rate decisions are rather unlikely at council meetings outside of Frankfurt." The Bundesbank council met in Magdeburg, part of the

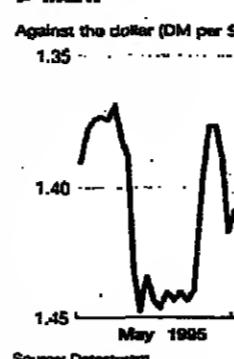
former East Germany.

What later emerged was perhaps not as remarkable as the market made out. Ms Alison Cottrell, analyst at Paine Webber in London, said what was most noticeable about the press conference that followed the meeting was the complete lack of content. She surmised that this reflected a lack of consensus in the council, with vague generalities being the easiest way to paper over differences.

"Their neutral stance is always slightly cautious," said Ms Cottrell.

The Paine Webber analyst also said the market's concerns appeared slightly misplaced. "The market has taken a set of comments that say nothing in a very negative light," she said. This was particularly the case regarding Mr Issing's comments that M3 growth was on an upward trend.

Ms Cottrell argues that with M3 growth actually negative recently, and well below the 4.6

D-Mark
Against the dollar (DM per \$)

Source: Datastream

1.40 1.45 1.50

May 1995 Jun

likely timing of a move in interest rates.

Mr Robin Marshall, chief economist at Chase Manhattan in London, said the Bundesbank had simply confirmed it was "as stingy as ever in terms of their easing schedule." He said he was in little doubt German rates would be cut again, but predicted a "slow grind down".

In its daily operations the Bank of England provided £205m late assistance and £114m at established rates, after forecasting a £550m shortage.

Prices prices lost ground in line with gilts and bonds, with the December short sterling contract closing at \$2.26 from

\$2.265 on Friday.

by traders to options-related short covering.

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OFFSHORE AND OVERSEAS

BERMUDA (SB RECOGNISED)

GUERNSEY (SIR RECOGNISED)

IRELAND ASIR RECOGNISED

	Int'l.	Domestic	Selling	Buying	Price	+/-
	Codes		Price	Price		
BT Fund Managers (Ireland) Ltd						
80 Harcourt Street, Dublin 2					00 3531 790	
BT Global Assets Fund						
Global High Yield C2	50100	9.35				
Global High Yield A2	50101	9.35				
Local American Equity C2	50102	9.35				
Local American Equity A2	50103	9.35				
Global Bonds C2	51121	11.77				
Global Bonds A2	51122	11.77				
Managed Bond Fund C2	51123	10.00				
Managed Bond Fund A2	51124	10.00				
Management Fund C2	51125	10.00				
Management Fund A2	51126	10.00				
BT International Investment Services						
Asian Growth	5735000	13.762				
European Growth	5184505	17.626				
Emerging Market Fund	5184506	16.525				
Bank of Cyprus Group						
1 Harcourtmane Place, IFSC Dublin 1					353 1670	
BOC Subordinated Risk Management Fund						
BOC Global Equity B2		1.0217				
Bronix International Fund Managers (Ireland)						
IFSC Hq, Custom House Quay, Dublin 1					071-10000	
Emerging World (A)	60103	0.877				
Growth Shares (US)	52111-76	0.877				
US & Australia (Euro)	50104	0.76				
High Yield Fund	50105	0.94				
Corporate Fund	50106	0.94				
World Bond FTF (A)	57757-93	0.854				
Coughlin & Co Fund Managers Limited						
George's Quay, Dublin 2, Ireland					00 3531 608	
Central Index Fund						
North American Equity	502-58	23.71				
Central European Equity	502-59	23.71				
Asian Equity	502-60	23.71				
Special Equity	502-61	23.71				
Other Income	502-62	23.71				
Sharing Income	502-63	23.71				
Corporate Income	502-64	23.71				
Euro Currency Income	502-65	23.71				
Global Income - Gilt	502-66	20.11				
Global Income - Corp	502-67	20.11				
Managed Asset Fund	502-68	21.24				
Global Small Cap Fund	502-69	21.63				
Drexler & Co Management Services Ltd						
La Fochee House, IFSC, Dublin 1					00 3531 670	
DSM Fund	121121-71	20.00				
Emerson Investors Adviser, Selector Fund plc						
China Fund	50101	5.00				
Hong Kong	50102	5.12				
Indonesia Fund	50103	5.25				
Thailand Fund	50104	5.25				
Singapore Fund	50105	5.25				
Malaysia Fund	50106	5.25				
DSM - Thailand Latin America Selections Plc						
Concentrated	50107	5.00				
Dunelm - Thailand India Fund plc						
India Fund	510120	5.00				
DSM Fund	DSM145-00	5.00				
Dymon Unit Trust Managers (Ireland)						
80 Harcourt Street, Dublin 2					00 3531 780	
Global Emerging Mkts A	50123					
Global Emerging Mkts B	50124					
Federated International Funds Plc (I)						
14 Dame Street, Dublin 2					00 3531 602	
Accumulation 15 Year Fund	50103	2.92				
Short-Term US Prime	51101	1.00				
High Income Advantage	\$1.00					
Federated Short-Term US Bond Securities Fund						
Investment Income Fund	50105					
Investment Can Sector	511145					
- Accumulated 7-Year Fund						
The Fiduciary Trust Global Fund						
12 Lower Leeson Street, South, Dublin 2, Ireland					00 3531 1001	
North Global Bond A	511176					
US Dollar Global Bond	511177					
US Steel Company Stock	511178					
GAM Fund Management Ltd (I)						
80-86 Lower Mount St, Dublin 2, Ireland					00 3531 1570	
GAM Asia Fund	501121	1.12				
GAM Europe Inc	501122	1.05				
GAM Europe Acc	501123	1.05				
GAM Europe Inc	501124	1.05				
GAM Tokyo Inc	501125	1.05				
GAM Tokyo Acc	501126	1.05				
GAM Core Bond Fund	501127	1.05				
GAM Universal Div Acc	501128	1.05				
GAM Emerging Equity Fund	501129	1.05				
GAM European Govt Inc	501130	1.05				
GAM European Govt Acc	501131	1.05				
AIA Fund	510101	1.05				
AIA Acc	510102	1.05				
AIA Fund	510103	1.05				
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AIA Acc	510260	1.00				
AIA Fund	510261	1.00				
AIA Acc	510262	1.00				
AIA Fund	510263	1.00				
AIA Acc	510264	1.00				

IRELAND REGULATORY

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Sell Price	Buy Price	+/-	Date	Sell Price	Buy Price	+/-	Date	Sell Price	Buy Price	+/-	Date	Sell Price	Buy Price	+/-	Date	Sell Price	Buy Price	+/-	Date		
Credit Management Funds - Contd.				Morgan Stanley Stan				Affiliated Distrib International Assets Ltd (2)				Royal Standard Life Assurance Ltd - Contd.				Cheesecor Indian Investment Company Ltd				E & F Mass Investment Products - Contd.	
222 Partners Incoter 201				Amherst Lovaly	\$1.25			Central Investors	\$1.25			Global Asset Management - Contd.				Armenia Corp 191	\$1.17			Rosenblatt, Rosenthal & Co Ltd	
222 Partners Incoter 202				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Asia Securities Fund Inc	\$1.03			Asia Securities Fund Inc	
222 Partners Incoter 203				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Shares Offshore Ltd	\$1.07			Shares Offshore Ltd	
222 Partners Incoter 204				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			VCC Shares Inc	\$1.01			VCC Shares Inc	
222 Partners Incoter 205				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			For Shares Of Comex Int'l Metal Min Co Germany Registered				For Shares Of Comex Int'l Metal Min Co Germany Registered	
222 Partners Incoter 206				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Shares Fisheries Fund				Shares Fisheries Fund	
222 Partners Incoter 207				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Shares Offshore A/C	\$1.07			Shares Offshore A/C	
222 Partners Incoter 208				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			For Shares Replicating Holdings On Proactive Form				For Shares Replicating Holdings On Proactive Form	
222 Partners Incoter 209				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			For One Share Of Galleria Fund				For One Share Of Galleria Fund	
222 Partners Incoter 210				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Shares Offshore Management Limited	\$1.05			Shares Offshore Management Limited	
222 Partners Incoter 211				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Seademer Investment Mgmt (Hong Kong) Ltd				Seademer Investment Mgmt (Hong Kong) Ltd	
222 Partners Incoter 212				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Auto Choice Fund	\$1.14			Auto Choice Fund	
222 Partners Incoter 213				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Assent Services Corp	\$1.14			Assent Services Corp	
222 Partners Incoter 214				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Avantech Corp	\$1.14			Avantech Corp	
222 Partners Incoter 215				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Banque Indosuez	\$1.14			Banque Indosuez	
222 Partners Incoter 216				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 217				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 218				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 219				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 220				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 221				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 222				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 223				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 224				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 225				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 226				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 227				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 228				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 229				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 230				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 231				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 232				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 233				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 234				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 235				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 236				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 237				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 238				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 239				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 240				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 241				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 242				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 243				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 244				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 245				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 246				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17			Barclays Bank PLC	\$1.14			Barclays Bank PLC	
222 Partners Incoter 247				Amherst Lovaly	\$1.25			Central Investors	\$1.25			AMF Fund	\$1.17		</td						

MARKET REPORT

Bond market weakness unsettles equities

By Steve Thompson, UK Stock Market Editor

UK equities delivered a disappointing performance yesterday, ignoring another burst of takeover speculation and reflecting a decidedly edgy opening performance by Wall Street.

The latter was unsewed at the opening by the weak performance of US Treasury bonds, which in turn affected bonds, bonds and gilts across European markets.

Dealers ascribed the fall in US markets to growing unease about the dollar, which dropped below the crucial \$1.40 level against the D-Mark yesterday after news that

the Bundesbank had left German interest rates unchanged. There had been no real conviction in the market that the Bundesbank would lower German rates but dealers said sentiment in the US currency had worsened after the news was made public.

The FTSE 100 Index of leading stocks ended the session a net 9.2 lower at 3,338.8, while the FTSE Mid 250 Index was more resilient, closing only 3.7 off at 3,653.9.

There was no real build-up of downside pressure in London, dealers said. "The market feels slightly worn out," said the head of derivatives activity at one of the leading UK securities houses. He added that

most of the domestic economic news emerging in recent sessions was viewed as moderately bullish for gilts and therefore for equities, but that this was balanced by some fairly aggressive selling pressure in the futures and options markets.

The consensus was that the market was unlikely to crack on the downside in the short term, unless Wall Street stages a substantial reversal.

The deputy head of trading at one big European securities house noted that any significant dips in the equity market were seen as opportunities for those holding short trading books to cover positions. All three stocks have long been seen as potential targets.

Good reasons for the market's

reluctance to move ahead strongly on Tuesday emerged early in the session with news of a £137m rights issue from FKI, the electrical engineering group, and the placing of 57.5m shares in TLG by its previous owner Thorn EMI and Investcorp, a Bahrain-based investment company. Together the two deals will take out some £220m of investment funds.

The market was in good form at the opening when the FTSE 100 opened more than 13 points higher, with early buying again fuelled by takeover talk concerning Cable and Wireless, Zeneeca and Thorn EMI. All three stocks have long been seen as potential targets.

There was some hard bid news. Graham Group, the builders merchant floated last year, agreed a takeover of rival Brith.

The Footsie stayed in positive territory throughout the morning but began to lose momentum over lunchtime when gilts mirrored an abrupt reversal in US bonds.

Among the so-called bid targets, Cable and Wireless ran out of steam, but Zeneeca continued to move ahead and Thorn EMI responded to merger speculation.

Turnover in equities expanded to 743.2m shares, well above recent levels, although 30 per cent of the total was accounted for by 153m shares that were traded in TLG.

Ramshaw said: "We expect more under performance in WH Smith's core chain and expect slow progress to be made particularly in the light of a tough trading environment."

Copper cables group Delta, which has come up from 43p since mid-March, fell 9 to 50p as word went round that some houses were shading their estimates ahead of the interim results, due in August.

Smith New Court moved from buy to hold on the shares and sliced 20p off its estimates for 1995 as a whole.

GEC continued to edge higher, finishing 1½ harder at 331½p. The shares stood at 323p immediately after the £835m cash takeover bid for submarine group VSEL.

International motor trader Incheapse was again Footsie's black marker, tumbling 9 to 228p for a two-day decline of 17% as worries about Far Eastern continued to build in the wake of this week's gloomy annual meeting statement from Jardine International Motors.

Telecoms shares fell back, succumbing to modest profit-taking after two days of near fever pitch activity. Cable and Wireless retreated 3 to 436p as some of the frothier takeover stories subsided while mobile phones group Vodafone eased 226p.

Volume in the sector remained high and for the second day running there was heavy derivatives activity in C&W. C&W shares traded 14m to the head of Footsie's activity chart while BT, seen by the stock market earlier this week as a determined suitor for C&W, gained a penny to 393½p in 11m turnover. Vodafone traded 8.9m.

Retailer WH Smith closed 2 down 34p, after Morgan Stanley downgraded profit expectations. Miss Julie Ramshaw at the US investment bank reduced current year profit expectations by 27m to £108m. Explaining the move, Miss

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GEC continued to edge higher, finishing 1½ harder at

Worst performing sectors

TICKERS

Major Stock Exchanges

FINANCIAL TIMES THURSDAY JUNE 15 1995

WORLD STOCK MARKETS

EUROPE (Jun 14 / Frts.)										FRANCE (Jun 14 - Frts.)										NORWAY (Jun 14 / NOK)										HONG KONG (Jun 14 / HK\$)																		
+/- High					Low					Yd					+/- High					Low					Yd					+/- High					Low													
AUSTRIA (Jun 14 / Sch)																																																
AutApt	1,800	-10	2,033	1,235	33	AutApt	1,621	-10	1,640	1,145	10	23	AutApt	1,518	-10	1,547	1,055	5	AutApt	1,318	-10	1,322	1,127	22	AutApt	1,120	-10	1,120	1,050	2	AutApt	1,020	-10	1,020	1,020	15	AutApt	980	-10	980	980	10	AutApt	950	-10	950	950	10
AutSta	2,025	-10	2,033	1,235	33	AutSta	1,621	-10	1,640	1,145	10	23	AutSta	1,518	-10	1,547	1,055	5	AutSta	1,318	-10	1,322	1,127	22	AutSta	1,120	-10	1,120	1,050	2	AutSta	1,020	-10	1,020	1,020	15	AutSta	980	-10	980	980	10						
Bulg	451 el	-10	451 el	329	22	Bulg	371 el	-10	371 el	49	49	Bulg	358	-10	367	420	25	Bulg	348	-10	350	423	25	Bulg	338	-10	340	425	25	Bulg	328	-10	330	425	25	Bulg	318	-10	320	425	25							
Bulg	678	-10	678	459	22	Bulg	491 el	-10	491 el	18	18	Bulg	488	-10	497	524	25	Bulg	478	-10	480	514	25	Bulg	468	-10	470	514	25	Bulg	458	-10	460	514	25	Bulg	448	-10	450	514	25							
Croat	577	-10	577	197	17	Croat	218	-10	218	197	17	Croat	215	-10	215	197	17	Croat	205	-10	205	197	17	Croat	195	-10	195	197	17	Croat	185	-10	185	197	17	Croat	175	-10	175	197	17							
EVE	1,378	-10	1,400	1,175	17	EVE	1,021	-10	1,021	1,175	17	EVE	913	-10	913	1,021	17	EVE	812	-10	812	1,021	17	EVE	711	-10	711	1,021	17	EVE	610	-10	610	1,021	17	EVE	510	-10	510	1,021	17							
Finland	902	-10	911	1,195	17	Finland	510	-10	510	1,195	17	Finland	410	-10	410	1,195	17	Finland	310	-10	310	1,195	17	Finland	210	-10	210	1,195	17	Finland	110	-10	110	1,195	17	Finland	100	-10	100	1,195	17							
Greece	505	-10	512	1,195	17	Greece	1,121	-10	1,121	1,195	17	Greece	1,020	-10	1,020	1,195	17	Greece	919	-10	919	1,195	17	Greece	818	-10	818	1,195	17	Greece	717	-10	717	1,195	17	Greece	616	-10	616	1,195	17							
Ireland	315	-10	316	1,195	17	Ireland	214	-10	214	1,195	17	Ireland	113	-10	113	1,195	17	Ireland	112	-10	112	1,195	17	Ireland	111	-10	111	1,195	17	Ireland	110	-10	110	1,195	17	Ireland	109	-10	109	1,195	17							
Italy	1,745	-10	1,762	1,195	17	Italy	1,450	-10	1,450	1,195	17	Italy	1,350	-10	1,350	1,195	17	Italy	1,250	-10	1,250	1,195	17	Italy	1,150	-10	1,150	1,195	17	Italy	1,050	-10	1,050	1,195	17	Italy	950	-10	950	1,195	17							
Latvia	1,261	-10	1,262	1,195	17	Latvia	1,060	-10	1,060	1,195	17	Latvia	960	-10	960	1,195	17	Latvia	860	-10	860	1,195	17	Latvia	760	-10	760	1,195	17	Latvia	660	-10	660	1,195	17	Latvia	560	-10	560	1,195	17							
Lithuania	1,020	-10	1,021	1,195	17	Lithuania	820	-10	820	1,195	17	Lithuania	720	-10	720	1,195	17	Lithuania	620	-10	620	1,195	17	Lithuania	520	-10	520	1,195	17	Lithuania	420	-10	420	1,195	17													
Malta	1,020	-10	1,021	1,195	17	Malta	820	-10	820	1,195	17	Malta	720	-10	720	1,195	17	Malta	620	-10	620	1,195	17	Malta	520	-10	520	1,195	17	Malta	420	-10	420	1,195	17													
Norway	1,745	-10	1,762	1,195	17	Norway	1,450	-10	1,450	1,195	17	Norway	1,350	-10	1,350	1,195	17	Norway	1,250	-10	1,250	1,195	17	Norway	1,150	-10	1,150	1,195	17	Norway	1,050	-10	1,050	1,195	17													
Portugal	1,261	-10	1,262	1,195	17	Portugal	1,060	-10	1,060	1,195	17	Portugal	960	-10	960	1,195	17	Portugal	860	-10	860	1,195	17	Portugal	760	-10	760	1,195	17	Portugal	660	-10	660	1,195	17													
Russia	1,020	-10	1,021	1,195	17	Russia	820	-10	820	1,195	17	Russia	720	-10	720	1,195	17	Russia	620	-10	620	1,195	17	Russia	520	-10	520	1,195	17	Russia	420	-10	420	1,195	17													
Slovenia	1,020	-10	1,021	1,195	17	Slovenia	820	-10	820	1,195	17	Slovenia	720	-10	720	1,195	17	Slovenia	620	-10	620	1,195	17	Slovenia	520	-10	520	1,195	17	Slovenia	420	-10	420	1,195	17													
Spain	1,745	-10	1,762	1,195	17	Spain	1,450	-10	1,450	1,195	17	Spain	1,350	-10	1,350	1,195	17	Spain	1,250	-10	1,250	1,195	17	Spain	1,150	-10	1,150	1,195	17	Spain	1,050	-10	1,050	1,195	17													
Sweden	1,261	-10	1,262	1,195	17	Sweden	1,060	-10	1,060	1,195	17	Sweden	960	-10	960	1,195	17	Sweden	860	-10	860	1,195	17	Sweden	760	-10	760	1,195	17	Sweden	660	-10	660	1,195	17													
Switzerland	1,74																																															

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

**pm close June 14*

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— 1 —

4 pm close June 14

NYSE COMPOSITE PRICES

Continued from previous page

1000 High Low Stock Dr. % Yr. Hg. Lw. Chg. Stock Dr. % Yr. Hg. Lw. Chg.

	High	Low	Stock	Dr.	%	Yr.	Hg.	Lw.	Chg.	High	Low	Stock	Dr.	%	Yr.	Hg.	Lw.	Chg.	
474 32 Saloms	664	58	10 10 107	40	-	10	10	10	-	105	105	105	105	105	-	105	105	105	-
273 19 Scoggs	155	72	10 10 355	22	-	22	20	20	-	155	155	155	155	155	-	155	155	155	-
104 6 Sartorius	816	16	10 93 940	10	-	10	10	10	-	816	816	816	816	816	-	816	816	816	-
125 5 SAWG	125	10	10 10 100	10	-	10	10	10	-	125	125	125	125	125	-	125	125	125	-
249 24 Searle	108	90	10 27 157	20	-	20	20	20	-	108	108	108	108	108	-	108	108	108	-
274 24 Searle Corp	144	10	10 16 166	10	-	10	10	10	-	144	144	144	144	144	-	144	144	144	-
184 14 Soappy	144	66	10 45 45	22	-	22	20	20	-	144	144	144	144	144	-	144	144	144	-
1114 75 Schmitz	236	32	12 12 55	55	-	55	55	55	-	236	236	236	236	236	-	236	236	236	-
4074 42 Schneiders	105	25	10 25 25	25	-	25	25	25	-	105	105	105	105	105	-	105	105	105	-
654 204 Sciene	110	23	10 23 485	10	-	10	10	10	-	110	110	110	110	110	-	110	110	110	-
475 215 Schindler	62	62	10 62 62	62	-	62	62	62	-	62	62	62	62	62	-	62	62	62	-
184 16 Schindler	610	60	10 11 1235	10	-	10	10	10	-	610	610	610	610	610	-	610	610	610	-
469 211 Schindler	482	60	10 10 450	31	-	31	31	31	-	482	482	482	482	482	-	482	482	482	-
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184 241 Schindler	105	23	10 23 485	10	-	10	10	10	-	105	105	105	105	105	-	105	105	105	-
184 242 Schindler	105	23	10 23 485	10	-	10	10	10	-	105	105	105	105	105	-	105	105	105	-
184 243 Schindler	105	23	10 23 48																

AMERICA

Equities turn positive after early declines

Wall Street

US share prices turned positive in early afternoon trading yesterday after a morning in which investors took profits off the top of Tuesday's gains, writes Lisa Branstien in New York.

The Dow Jones Industrial Average moved as much as 20 points lower in morning trading but managed to push into positive territory after midday. At 1 pm the Dow was 0.69 ahead at 4,855.20, while the Standard & Poor's 500 was off 0.27 at 535.78. The American SE composite climbed 5.22 to 496.61 and the Nasdaq composite gained 0.19 at 894.24. New York SE volume amounted to 187m shares.

Both the stock and bond markets had swung up and down markedly since the beginning of this month as investors speculated about the course of monetary policy.

Yesterday's data, showing strong productivity gains in the first quarter and a modestly higher than expected inventory growth in April, drew little reaction because the figures were too old to provide much insight about

the second quarter.

Cyclical shares fell amid uncertainty about Fed policy and the strength of the economy. The Morgan Stanley index of cyclical shares fell 0.6 per cent while the counterpart index of consumer shares remained flat. Declining cyclical shares included Rohm & Haas, which fell 2.2% at \$51.4% after saying that it did not expect second quarter net income to exceed that of the same period last year. Honeywell fell \$1 at \$40.9% and Eaton lost 3% at \$55.7%

Shares in companies that provide managed healthcare fell sharply after Humana said that it expected second quarter earnings to be below analysts' estimates due to rising medical costs. Humana lost 15 per cent or 3% at \$1.9%. United Health-care 2% at \$40. Mid Atlantic Medical Services dropped 1% and Foundation Health 1% at \$39. On the Nasdaq, Oxford Health Plans fell 2% at \$35.7%, US Healthcare 1% at \$32.4%, FHP International 5% at \$22.4% and Pacificare Health Systems 1% at \$37.7%.

Cor Therapeutics lost nearly 47 per cent or 3% at \$10.10 after the company announced unfavorable results from the test of a drug developed to treat patients undergoing coronary angioplasty surgery.

Canada

Toronto resisted the New York slide with help from gold and the consumer products division. The TSE 300 Composite index was 2.50 higher at 4,494.60 at 1 pm, with the gold and precious metals index up 10.28 at 10,548.76 as bullion reached \$387.75 an ounce in London.

Industrials were generally weak but consumer products, like gold, put on a percentage point. Seagram continued to gain on the MCA/DreamWorks distribution deal, adding C\$4% at C\$43.4%.

SOUTH AFRICA

Johannesburg posted some late gains as the bullion price made ground in New York. However, sentiment remained nervous on the uncertain outlook for interest rates, which could hit earnings growth prospects in the industrial sector. The overall index was 4.1 better at 5,310.8, industrials picked up 6.7 to 6,791.5 and golds added 11.5 at 1,402.5.

Argentina hit by car exports fears

Buenos Aires fell 2.1 per cent in morning trade, but by the prospect of curbs on its car exports to Brazil, which had been helping Argentina to reduce its trade deficit.

The Merval index, which had rebounded earlier this week after last week's 11 per cent loss, was standing 8.8 lower at 405.19.

Brokers noted that Brady bonds and ADRs showed heavy falls on Wall Street, although it was still unclear whether car import quotas,

under study by Brazil, would apply to the Mercosur customs union, of which it is a member.

SAO PAULO picked up from early lows but was still weak in midday trade on speculative selling during the day's futures index settlement. The Bovespa index was down 219 at 37,674 at 1 pm, in low turnover of R\$195.6m (\$215.6m).

MEXICO CITY saw early profit-taking after Monday's gains and the IPC index was 12.41 easter at 1,971.36 in morning trade.

EUROPE

Extended cloud cover for Paris bourse

Bourses got no lift from the Dow in yesterday's European afternoon, writes *Our Markets Staff*. Indeed, the main transatlantic influence was weakness in the dollar: depressive but, in most capital cities, not exactly surprising.

PARIS, however, traded under several clouds: there was nuclear testing, dollar weakness, and disappointment at the lack of a German interest rate cut; unhappiness in the automotive sector; a row between Suez and its major corporate shareholders; and the imposition of "judicial control" upon Mr Guy Dejouany, chairman of Générale des Eaux, in connection with a 1991 bribery probe.

The combination was too much for today's Corpus Christi holiday, turnover easing from DM5.5bn to DM5.3bn as the Dax index closed the post-bourse just 0.52 firmer at an this indicated 2,124.84, after a morning high of 2,137.75 and a session close of 2,123.02.

The Bundesbank's decision to hold interest rates came as no surprise here. The main share price initiatives of the day, indeed, were taken with a view to 1996 as the big retailers, Karstadt and Kaufhof, rose DM11.50 to DM50.50 and the Dax 1.50 to DM49.50 respectively.

Mr Eckhard Frahm at Marck Finck in Düsseldorf said that Williams de Brok noted that NatWest's proposed takeover of National Mutual in Australia, a major international strategic move, needed 65 per cent approval

from the target's policyholders, who were likely to be prejudiced by the French decision to resume nuclear testing in the South Pacific.

Among automotive stocks, Valeo dropped FF7.10 more to FF245.90 and Renault played catch-up with a fall of FF4.70 to FF153.10. Générale des Eaux lost FF15 at FF75.60 and Suez FF3.10 at FF25.50.

FRANKFURT traded quietly ahead of today's Corpus Christi holiday, turnover easing from DM5.5bn to DM5.3bn as the Dax index closed the post-bourse just 0.52 firmer at an this indicated 2,124.84, after a morning high of 2,137.75 and a session close of 2,123.02.

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Second-tier stocks continued to catch up, having been largely left out of last week's strong rally. Cetim-Buethe closed SFR5.00 higher at SFR100.50, and Holderbank rose SFR13 to SFR56 and Swissair SFR6 at SFR7.52.

Reiter registered jumped SF15 or 4.4 per cent to SF19.50, with its takeover of a US car supplier seen as positive for the company.

Certificates in SCA, which controls 75 per cent of billboard space in Switzerland, were jumping 10 per cent to SF1.20.

FT-SE Actuaries Share Indices

Jun 14	THE EUROPEAN SERIES						Jun 15
	Hour changes	Open	10.30	11.00	12.00	13.00	
FT-SE Eurotrack 100	+182.23	1,982.42	1,981.97	1,982.77	1,983.88	1,982.90	1,981.13
FT-SE Eurotrack 200	+145.60	1,450.42	1,450.77	1,452.78	1,450.19	1,447.77	1,448.22

FT-SE Eurotrack 100: 1,984.19; FT-SE Eurotrack 200: 1,447.96; FT-SE Eurotrack 200: 1,446.06; FT-SE Eurotrack 200: 1,446.24

Source: FTSE/Actuaries. Higher: 100 +182.23; 200 +145.60. Lower: 100 -1,981.13; 200 -1,448.22. Pairs

finding favour in recent sessions, appreciated a further 1.43 to 1,432.

AMSTERDAM was pulled lower by a slip in German and Dutch bond prices after the Bundesbank's interest rate decision, the AEX index closing 1.26 off at 430.57. The retailer Ahold retreated 40 cents to FT32.90 ahead of the first-quarter figures, due today.

Profit-taking in Ericsson and Nokia hit the STOCKHOLM and HELSINKI markets yet again, the telecoms stocks dropping SKR1.57 and FM6.00 to SKR3.57 and FM6.00 respectively.

MILAN was flat, with selling by banks and mutual funds prompting some brokers to suggest that the funds might be feeling the impact of redemptions. The Comit index rose 1.46 to 606.81 and the real-time Mibtel index finished 8 lower to 9,757 after a session heavily influenced by the close of the monthly account and the June futures contract.

Flat remained under pressure, weakening L72 to L5.90, with Tuesday's presentation to analysts failing to dispel worries about the first-quarter performance.

Edison, said to have been heavily bought by one Milan-based broker, moved forward L1.92 to L6.882, while Italgas,

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Hong Kong climbs 2.9% on US rate hopes

Expectations of a cut in US interest rates and the removal of uncertainties over Citic Pacific's holding in HK Telecom took Hong Kong 2.9 per cent higher.

The Hang Seng index rose 261.60 to finish at the day's best of 9,384.77, although analysts cautioned that while turnover of HK\$3.6bn was a marked improvement on Tuesday's HK\$2.4bn, it was still not enough to suggest the start of another bull run.

The property sector was the main beneficiary of expectations of a US interest rate reduction, which would feed through to local rates.

The property index outperformed other sub-indexes, gaining 3.9 per cent. Cheung Kong rose HK\$1.70 to HK\$36.80, supported by an encouraging response to a sale of new apartments and rumours of a covered warrants issue.

HK Telecom advanced 45 cents to HK\$15.55 on news that Citic Pacific, 70 cents higher at HK\$19.95, continued to hold its 12 per cent stake.

Analysts were sanguine about news that Citic's parent company, Citic Hong Kong, which is not listed, was the seller of 6.6m shares since February.

Reports that Mr Ryutaro Hashimoto, the trade minister, had announced a vice ministerial level meeting in Geneva on June 22 and 23 between the US and Japan over cars encouraged investors. However, some brokers said the rebound was largely technical, following the Nikkei's decline of some 1,000 points over the past four days.

Carmakers advanced, the sector rising 1.2 per cent. Toyota Motor gained Y10 at Y1,620 and Nissan Motor Y9 at Y1,941. The rise were helped by other exporters, especially high-technology issues which had plunged over the past few days on short selling by dealers. Sony rallied Y40 to Y3,840 and Kyocera Y50 to Y6,300.

In Osaka, the OSE average moved up 16.82 to 15,789.49 in volume of 8.2m shares. Machinery stocks were bought back.

Reports that the Fair Trade Commission, the anti-trust watchdog, was planning to issue a warning over the company's alleged arm twisting of its retailers over prices. Retailers had complained that Shiseido had stopped supplies following sales of its cosmetics at discount prices.

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Some banks continued to lose ground on small-lot profit-taking. Dai-Ichi Kangyo Bank slipped Y10 to Y1,570.70 and Nippon Trust & Trust of Tokyo was also of Y10, at Y1,440.

In Osaka, the OSE average moved up 16.82 to 15,789.49 in volume of 8.2m shares. Machinery stocks were bought back.

reports that the Fair Trade Commission, the anti-trust watchdog, was planning to issue a warning over the company's alleged arm twisting of its retailers over prices.

The rest of the region, too, offered wide variations in performance.

TAIPEI dropped 1.8 per cent, as investors snapped up what they considered to be bargain-priced finance issues. The SET index firming 15.88 to 1,887.88 in turnover of Bt3.8m.

KARACHI held a special, late session to trade on the Pakistani budget. The with drawal of tax exemption on "bonus" shares and issues hit the market, leaving the KSE 100-share index 12.4 at 1,966.5. The

day's other rallies included BANGKOK, up 1.2 per cent as investors snapped up what they considered to be bargain-priced finance issues. The SET index firming 15.88 to 1,887.88 in turnover of Bt3.8m.

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Market	No. of stocks	Dollar terms			Local currency terms			Local currency terms
		June 9	% Change over week	June 9				

Interview: Malcolm Wollaston of 3M on a big user's requirements

Global operators needed

It is the perfect demonstration of 3M's commitment to leading edge telecommunications. Malcolm Wollaston, the company's global telecommunications manager, welcomes you into his office and the meeting begins; suddenly his desktop computer imposes its presence on the discussion.

Images of Mr Wollaston in his Bracknell, UK, office together with another neatly suited executive appear in separate windows on the screen as the loudspeaker crackles into life. It is a colleague calling from Brussels, courtesy of desk-top video.

The system, built around technology from the US company PictureTel, is set up for urgent communications. It interrupts whatever Mr Wollaston is doing just like a telephone call. "We have invested \$1m in this technology, partly to cut the cost of travel but principally to accelerate decision-making," Mr Wollaston says.

"A 3M production facility in Japan came to a standstill. We needed to consult with the specialists in our US laboratories and engineering facilities. We booked up a videoconferencing system in four hours to link 22

experts and we had that production line rolling in 13 hours. The team would not have been half way over the Pacific by the time we had the problem solved."

Mr Wollaston, with almost 30 years' experience in 3M during which time he has been responsible for the group telecommunications operations in the UK, Europe and now worldwide, is accustomed to thinking globally.

3M, which makes everything from adhesives and fabrics to speciality chemicals, has operations in 51 countries, employs 85,000 people and markets 60,000 products. Turnover

Data transmission represents only a fifth of the company's telecoms spend, but it is critical for business development

is \$15bn.

Mr Wollaston is rarely satisfied in his search for telecommunications suppliers who can meet the company's global aspirations. He points out: "There are a number of companies who describe themselves as global, but with all due humility, 3M could show these companies what being global

really means."

"KDD of Japan, AT&T of the US, BT here in the UK: all of these companies would claim to be global operators but there are some remarkably large tracts of this earth where they do not appear."

His solution is to use AT&T as principal services supplier worldwide, but to use the principal national operator in each country where 3M is engaged in business. "We use AT&T where we are able to, and elsewhere we select the best of local breed," he says.

"In the case of AT&T we have made significant progress because, through negotiation,

every 10 working days and exchange all the information on 3M's telecoms activities worldwide. The result is, they know about all the hot issues we are seeking solutions for."

3M has a number of advantages in dealing with the big telecoms suppliers. It has considerable in-house telecoms expertise with its own laboratories and skilled technicians.

And it has financial clout, spending some £150m a year on its telecoms infrastructure. Such organisations have little difficulty in getting the operators to concede volume discounts of between 10 and 40 per cent.

But as Mr Wollaston points out, 3M is not in the telecoms business: "It is absolutely crucial to the development and success of our business, but it is not a core product. We have 2,000 suppliers of telecoms products worldwide and that is a significant management challenge. We would like to reduce that number substantially."

It is likely, therefore, that 3M will outsource its telecoms activities. Not as such: Mr Wollaston draws a clear distinction between "outsourcing" where a company hands over



Wollaston: a perfect demonstration of 3M's commitment to leading edge telecommunications Picture: Ashley Ashwood

critical aims for the immediate future.

First, he is seeking integrated services digital network (ISDN) services in areas such as Asia Pacific, South America and Africa where the infrastructure is patchy. ISDN is essential for effective videoconferencing.

Second, he is looking for more efficient data communications in the world's underdeveloped regions.

Data transmission represents only a fifth of the company's telecoms spend, but it is critical for business development.

Third, he hopes to open a virtual private network across Europe. This year, 3M, in conjunction with a number of other large suppliers, will begin to test a Europe-wide virtual private network provided by AT&T and BT.

Virtual private networks are made possible by intelligent switches and provide advanced features such as caller line identification and call-following over the public switched network.

Mr Wollaston is a board

member of the European Virtual Users Association: the group used its combined purchasing power to persuade AT&T and BT to co-operate to create the virtual network.

He has little time for the conventional national demarcation lines: "All the operators are trying to protect their own turf while I am looking for transparency and interoperability. I want them to work together behind the scene to meet my business requirements. What you get is the old finger-pointing: 'That is not on my patch, not my responsibility,' he says, with a touch of exasperation.

Fourth, he hopes to move conventional data communications to a faster, cheaper alternative called "frame relay" - a precursor to Asynchronous Transfer Mode (ATM) which many believe is the digital technology which will make possible the information superhighway.

Mr Wollaston, however, tells a story which speaks volumes about progress in telecoms.

"I remember that ISDN was the star of the trade show Telecom '78. The Italian telecoms authority said they would have ISDN lines through most of Italy by 1981. Now, 16 years later, we are still struggling to have ISDN in the Genoa region. If ATM takes as long to deliver, I shall be retired before we are using it."

Alan Cane

Interview: fast-growing new London operator Colt

Further price cuts forecast for the City

Mr Paul Chisholm has just changed jobs within Colt (City of London Telecommunications), a provider of telecoms services primarily to businesses in the City of London. Now in charge of a planned European expansion, he was formerly the supplier's managing director and is also involved in the Other Licensed Operators Group - an organisation of 20 public telephone operators which has focused its discussions with British Telecommunications and the industry watchdog Ofcom on lowering barriers to market entry.

Although some businesses have been complaining that

pricing in the industry is too high, even though telecoms deregulation has been moving swiftly for some time, Mr Chisholm does not agree: "I guess I'd be taken aback a little if customers generally think prices are too high. People have probably unrealistic expectations of how much prices will fall with competition."

But he adds: "The benefits of competition have meant that prices have come down for most customers in the City and the main city regions of England. Switch calls, for example, have come down dramatically. Regional companies, such as Colt, Energis and

the cable companies have done that. International rates have also fallen. The traditional BT price to the US was something like 42p a minute. Mercury is about 38p. The going rate for companies in the City now is about 20p."

Mr Chisholm believes that businesses can look forward to further price-cutting activity and draws a parallel with the US: "Competition has been in place in the US for about 20 years. For 15 of those, prices came down. Only in the last few years have prices stabilised."

However, for companies outside the City of London, he is less hopeful. An organisation

based "where competition has not taken a foothold" - an example he gives is the east of England - might not be able to shop around for competitive telecoms rates.

He argues that competition has made BT cut its retail prices but the wholesale charges between BT and Colt are a bone of contention. Without Ofcom, he says, "there's no reason for BT to move. In the wholesale market it has 96 per cent of the terminations [the destination of each call] in the UK. Customers complain that they want free local calls. We can't give them that because we have to pay BT for all those final connections."

So there is a need for a regulator: "BT is too strong but Ofcom's performance in general has been tremendous." He points to the work that has been done on simplifying contracts and pricing agreements between telecoms operators. In particular he is pleased with the negotiations that have taken place on interconnection charges - the price paid when calls are passed from one operator's network to another.

"When the Other Licensed Operators started up there were no standard contracts or standard pricing in the industry. That's been resolved. Negotiating interconnection agreements was difficult,

time-consuming and expensive. But a new operator now has access to information, product, pricing and terms and conditions from which it can develop a business plan."

Mr Chisholm admits that there is still much more work to be done as regards competition and regulation. "There is no problem getting a licence but that does not mean there are no barriers to effective entry. There are many inherent benefits accrued to BT by virtue of its monopoly power. It is necessary to see the national network as a national asset open to all public telephone operators. These operators must become part of the

process in order to improve services and bring choice to customers."

In Colt's view, slowness to change impedes the chances of business customers being serviced exactly to requirements. But there is still plenty of room for smaller suppliers to specialise in particular services as Colt's customers in more than 300 City of London buildings would probably testify.

Adrian Michaels

Warehousing? Well, yes. But of information, rather than goods.

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July 1995

TELECOMMUNICATIONS IN BUSINESS 3

Christopher Price looks at the impact on BT and Mercury of new UK operators

Drive for residential customers

Member of the European User's Association, he group used its committee's lobbying power to persuade AT&T and BT to agree to create the virtual network. He has little time for the conventional national operators, however: "All the operators are trying to protect their own interests. I am looking for the customer and interoperability, without them to work together behind the scene to meet our customers' requirements. What you get is the old finger-pointing. That is not on my radar screen, with a touch of cynicism."

Forthright, he hopes to move conventional data communications to a faster, cheaper alternative called "frame relay". Transfer Mode (ATM) will always be there, he believes, as the backbone which will handle the information superhighway.

Mr Williamson, however, is sceptical, which speaks volume about his views. A member of the telecoms showbiz, he says: "The industry seems to say they would like to move through next year. Now, if we are still stronger, I think ATM takes a long time before it shall be retired from us."

There are more than 100 licensed operators in the UK, but BT's move - lopping some £30m from customers' bills - is a mark of how seriously it considers the threat from new entrants into the market, particularly the cable companies.

They have been focusing their drive for new business chiefly on residential customers and BT's decisive response earlier this month was also aimed at that part of the tele-

phony market. However, the growing inroads being made by both cable companies and other licensed operators into the business market is unlikely to go unnoticed, or unchecked.

Three of the most prominent challengers to the dominance of BT and Mercury, the first alternative telecoms operator to be licensed, include Colt, which operates in the City of London, Energis, owned by the National Grid, and MFS, the US telecoms group.

Colt has signed a preferred supplier agreement with Energis, each company using the other's area strengths - Colt in the City and Energis for its long-distance network.

Energis arrived just under a year ago, using National Grid's pylons to carry its 3,500km fibre optic network, with an initial investment of £250m. Its stated aim was to target small and medium-sized business customers.

Launched in March this year, MFS's fibre network covers most of the City and Docklands and is being built out to Southwark and Westminster. The company is considering a plan to extend the network to the Thames Valley, putting MFS within reach of 35 per cent of the UK's big telecoms users.

The big selling point of all the new telecoms operators is price. Colt, for example, claims to be 15-20 per cent cheaper than BT. The issue is inevitably contentious, with BT at pains to point to the "hidden" costs carried by some operators. While admitting that its basic call costs are often higher than those of competitors, BT also likes to stress the experience, service and breadth of expertise the company has built up.

However, growing numbers of business users have been switching to the new operators, drawn by promises of cheaper rates, but also attracted by other considerations. For example, a move to Energis by life insurance group London and Manchester was technology-driven. The telecoms group was developing a call management information system in conjunction with a Toshiba telephone system used by L&M. The insurance group, which is headquartered in

Exeter but which has 40 field offices, was keen to garner more information about its telephone usage, which Energis was able to offer.

"The management information system we now have from Energis allows our local managers to be in control of their call costs and even monitors the quality of telephone service we give to our customers," said Mr John Willis, the group's telecoms manager.

He praised the attitude of Energis, particularly on its business emphasis. "Energis come from a different angle to deal with small and medium businesses. They seem to understand what our type of requirements are."

Price was also an important factor, admitted Mr Willis, although the company continued to keep its options open. "We also continue to use BT. Mercury, Energis and have just signed up with our local cable provider, Eurobell." He said that the group's suppliers would be reviewed periodically and the group would choose its provider on price and service. "The more suppliers, the stronger our position on price."

A similar system exists at Reuters, which uses the two, along with Colt. The US-owned group was used initially on a project to provide a Synchronous Digital Hierarchy service - essentially a line back-up service - to the news and information group last year. Since then, Reuters has used the telecoms provider more extensively.

"They proved themselves in terms of price and service. They listened to what we wanted and went away and delivered," said Mr Kirk Langley, a marketing manager at Reuters.

Mr Langley said there was a perceived loyalty to the group's traditional telecoms suppliers. However, the situation was "application specific... if a new player comes on board we are very happy to try them out."

Similar criteria were sought by Mr Richard Lander, manager of multimedia services at Telerate, the financial information group. It has recently launched a screen-based infor-

mation system to dealers in the City of London. It began its search for a telecoms provider last October.

"We needed a supplier who was flexible, responsive to our needs, had a good effective business plan and was also price-effective for our requirements," said Mr Lander.

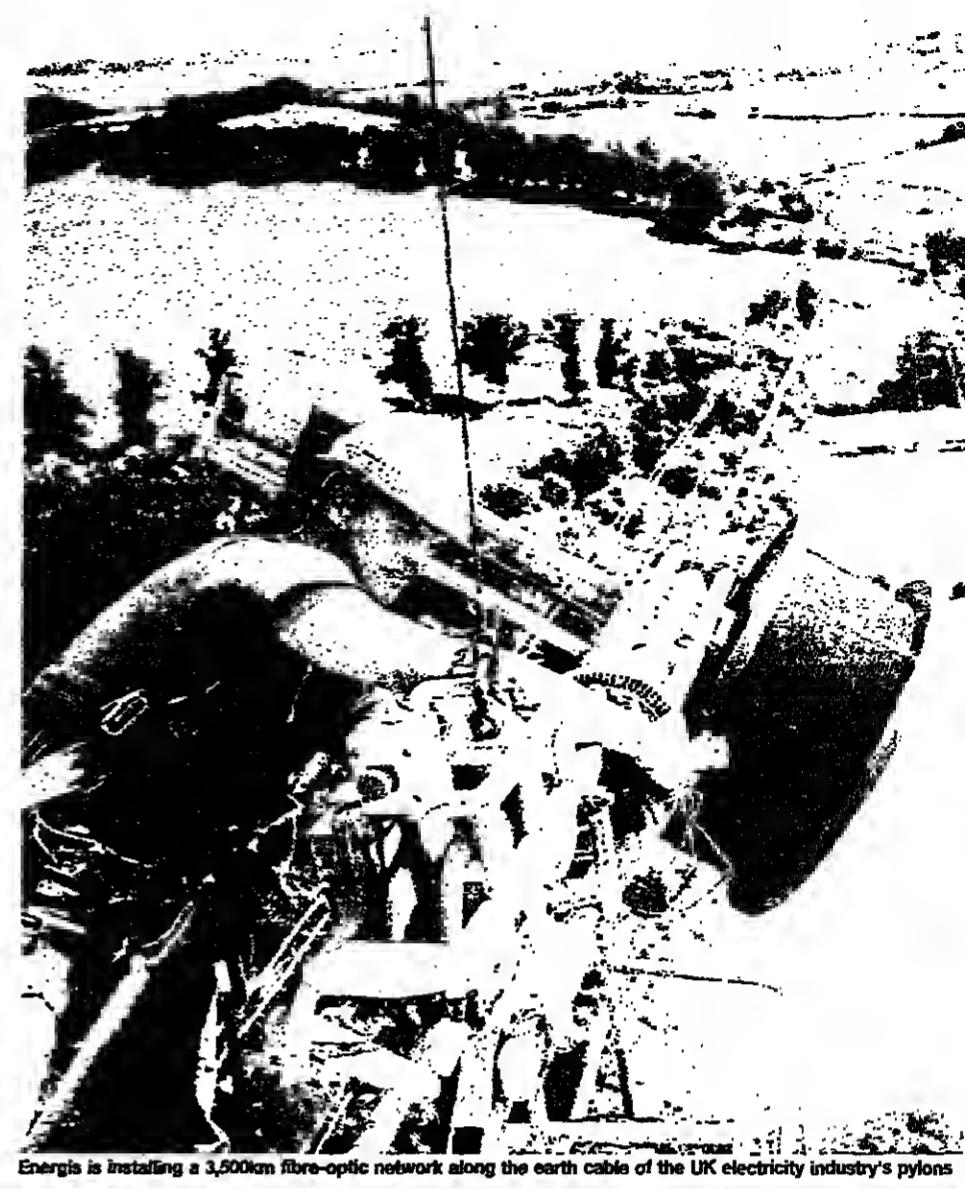
After sourcing all the main providers, Telerate chose MFS. "They were the most hungry for the business; their whole attitude was better," said Mr Lander.

The difference in prices between the different operators was "significant" according to Mr Lander, with Colt and MFS "well ahead" of BT and Mercury. "We knew what price we were charging for our service and so had to find a cost that we could manage for our sup-

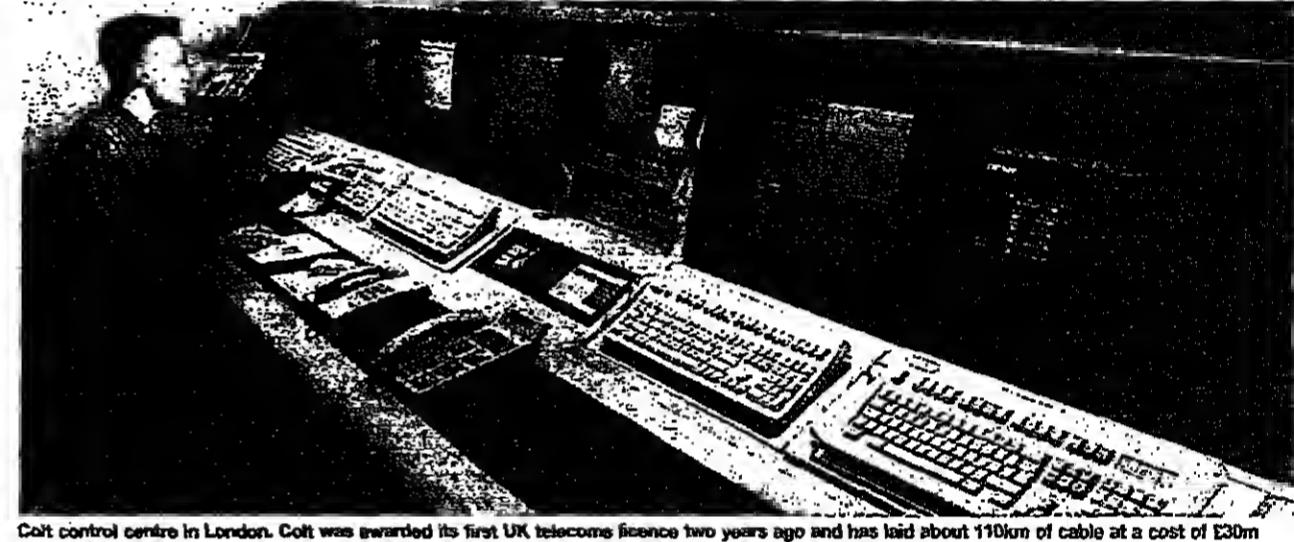
plier."

The development of competition among the telecoms operators had put companies in the driving seat, according to Mr Lander. He has no fears about being tied into one operator. "If an operator offering competitive rates decided to hike up their prices, customers would just vote with their feet, it's as simple as that."

BT said that their "vigorous" response to the arrival of new entrants had resulted in the group winning back market share in the City, up from 50 per cent in 1993 to 70 per cent in the first quarter this year.



Energis is installing a 3,500km fibre-optic network along the earth cable of the UK electricity industry's pylons



Colt control centre in London. Colt was awarded its first UK telecoms licence two years ago and has laid about 110km of cable at a cost of £30m

Challenger: the Colt (City of London Telecommunications) network

In October 1993 COLT began providing world class telecommunications services in London. Since then our network has grown to cover over 100 km of London's streets and we now service more than 300 major buildings. We achieved this rapid growth while maintaining the very highest standards of customer service.

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a fibre optic network in Frankfurt, similar to our highly successful London network, and have recently opened an office in Germany.

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TELECOMMUNICATIONS IN BUSINESS 4

The Internet has now reached critical mass, reports Paul Taylor

Revenues of \$10bn forecast

The Internet, once little more than a playground for computer hobbyists, has become an important business tool providing a global communications facility, marketing and research device and a channel for electronic commerce.

"The Internet is going to be a huge moneymaker," says a US-based Forrester Research group in a recent report. Forrester estimates that overall market revenues from Internet-related products and services will grow, "from a respectable \$300m last year to a \$10bn juggernaut by the end of the century."

Specifically, Forrester predicts that software for Internet applications will grow into an annual market worth more than \$750m by the end of the decade. Internet access fees will climb to over \$500m, new Internet activity will generate \$350m in new hardware sales and Internet-related services and consulting will reach \$225m.

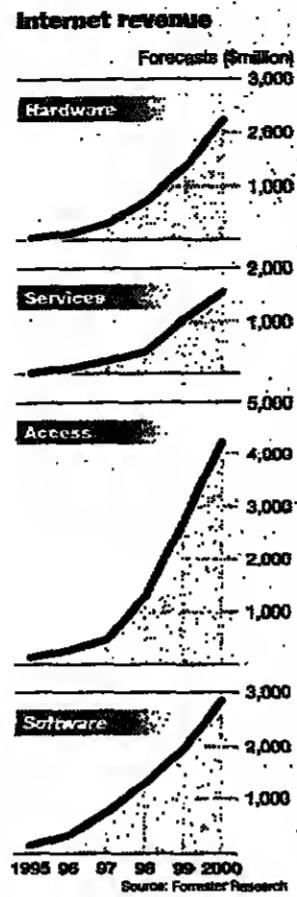
SRI International, another market research firm, argued in a report published at the end of May that the Internet "can serve a critical role in allowing companies to establish and maintain relationships with their clients, which in turn allows them to become more responsive to clients and to promote sales of additional products and services."

The Internet has expanded rapidly in recent years. It now has about 40m users and connects more than 40,000 individual networks and almost 5m host computers with about a third of them in Europe.

A new network is connected to the Internet every 30 minutes and 1m new users join each month. By the year 2000, some industry participants are predicting 100m Internet users.

Almost half the US publicly-traded companies with annual sales over \$1.5bn have a presence on the Internet and new commercial sites are almost doubling each year, according to the Internet Society, an international organisation that oversees technology and applications of the Internet. About 60 per cent of Internet traffic is of commercial origin.

The recent surge of business interest in the Internet has been driven by several factors. These include the development of easy-to-use software for searching the Internet's vast information resources and the lure of low-cost global data communications.



Most importantly, however, the Internet has now reached "critical mass" - there are so many potential customers that businesses cannot afford to ignore it.

The most popular commercial uses of the Internet are internal and external electronic mail - used by up to 80 per cent of businesses - file transfer (50 per cent) and access to external data (40 per cent).

Over the past few years the Internet has become a conduit for millions of electronic messages. Unlike telephone calls, facsimiles or conventional mail, the cost of internet electronic mail is independent of how far the message must travel, making it a big cost saver for international communications.

In the future, the Internet could also become an important medium for cut-price voice traffic as well as data. Although the use of the Internet for telephone calls currently suffers from a number of drawbacks Mr Peter Dawe, managing director of Pipex, the largest UK-based commercial Internet service provider, believes this will change rapidly.

Software packages which allow person-to-person voice calls over the Internet are already available and more sophisticated hardware and software packages are just around the corner.

In the meantime however the fastest growing portion of the Internet is the "World Wide Web" (WWW), which provides a standard set of protocols for presenting and retrieving "pages" of information.

Traffic on the WWW increased more than 10-fold in 1994 and by early this year there were more than 15,000 World Wide Web "home pages" set up by individuals, academic institutions, companies, government departments and other organisations.

Many companies have established "electronic billboards" on the WWW to show off their wares, creating a flourishing "commercial district" on the Internet.

The WWW has almost single-handedly transformed the Internet from a members-only sandwich into a gigantic crossroads with strip malls, nouveau info-publishers, and EDI depots," says the Forrester report.

WWW sites range from simple product lists to elaborate

security concerns, however this is now changing.

In Silicon Valley, for example, a consortium of high-tech companies is creating CommerceNet, an Internet marketplace for electronics products.

Using a secure browser program, customers can order products directly over the network using their credit cards.

Using the latest version of Netscape's WWW browser, secure shopping malls have been set up by US-based companies.

These include marketplaces MCI, the Internet Shopping Network and Access Market Square run by Utah-based InterConnect West.

Meanwhile, Barclays Merchant Services launched BarclaySquare, an electronic shopping mall, last month.

BarclaySquare uses the encryption features of Netscape Navigator v1.1 coupled with proprietary security features developed by Interactive Telephony, a private Jersey-based company which operates Supernet, an embryonic on-line information service.

However not everyone agrees about the potential of the Internet for electronic shopping.

According to a recent Dataquest survey, fewer than 25 per cent of Internet users are willing to make an on-line credit card purchase.

Although the Dataquest survey confirmed that security was a primary concern - more than 60 per cent of the survey respondents considered security to be very important - security is only a small part of the lack of interest in on-line shopping today.

The key factors behind the growth of electronic shopping are developing compelling applications and producing scenarios that focus on the consumer rather than the merchant," said Allen Werner, a principal analyst with Dataquest.

"Applications need to provide convenience as well as a pleasurable shopping experience to be successful with the consumer; simply providing a different way of doing the same old thing will not lead to success in this market."

Beyond marketing, communications and electronic publishing, the real promise of the Internet is electronic commerce - transactions conducted via computer networks.

The development of electronic shopping over the Internet has been held back by

The growth of the Internet is also fueling the development of a dynamic hardware, software and services industry to support the Internet itself.

Input, the market research firm, estimates that the Internet will drive the development of a software, support and services market in Europe alone worth \$350m in annual revenues by the end of the decade.

"The Internet phenomenon is the biggest information services story of the 1990s," says Mr Peter Cunningham, Input's president and founder.

In the US, for example, Sun Microsystems, the leading supplier of computers linked to the Internet, is also itself a

heavy user of Internet applications.

The computer company is using the WWW to reduce costs of employee and customer training, printing, software distribution and customer service. Sun claims to save about \$1m each quarter by distributing software patches and pre-release versions of new programs on the WWW.

Nevertheless for all of its advantages, the Internet has a number of drawbacks. In particular it lacks a comprehensive directory of users and services and has suffered from a number of highly-publicised security breaches.

The scramble among businesses not to be left behind by the Internet revolution has meant that the normally high security standards found on large information technology users are not mirrored in their policies towards Internet links," says Mr Brian Neale, Digital Equipment's leading authority on Internet security.

To combat the security problem, companies linking their computers to the Internet have built "firewalls" to protect sensitive internal information against intruders.

Business users can also look forward to improved services as new software and encryption technologies continue to transform the global computer network into a robust business tool.

Sizing the Internet: Forrester Research: (44) 01753 831534, by subscription only.
Internet Users: Who They Are What They Want: Datasheet: (44) 0194 422722, price £1.45.
Business Applications of the New Internet: SRI International: SRI International: price £1,000; (44) 0181 686 5555

Big company networks: Mark Newman on global operator alliances

Caution over outsourcing

Are large businesses ready to hand over control of their telecommunications networks to public network operators? It is a question that has been consuming the minds of the international telecoms community since the first shots were fired in the global-telephone-operator-alliance wars four years ago.

Outsourcing provided the first step into the international networks market for BT in 1991. It was BT's aborted attempt to set up a joint venture with Deutsche Bundespost Telekom and Nippon of Japan which triggered off a scramble among European and US telephone companies to set up shopping today.

The key factors behind the growth of electronic shopping are developing compelling applications and producing scenarios that focus on the consumer rather than the merchant," said Allen Werner, a principal analyst with Dataquest.

"Applications need to provide convenience as well as a pleasurable shopping experience to be successful with the consumer; simply providing a different way of doing the same old thing will not lead to success in this market."

But have users really benefited from the growing attention receiving from telephone companies? And are the operators managing to convince them that telecoms is not a core business, and that they should move into the passenger seat while a specialist telephone company takes over at the wheel?

A reasonable answer would probably be no, not yet. A large number of multinational corporations are outsourcing parts of their networks. But very few are outsourcing their entire networks.

Users are enthusiastic about the concept of outsourcing, but cautious to commit themselves. There are a number of reasons why.

There is continued uncertainty over the long-term stability of global alliances and partnerships. The alliance between France Telecom, Deutsche Bundespost Telekom and Sprint, a US telephone company, is still awaiting clearance from both Brussels and Washington. Unless Germany, and particularly France, move quickly to open their domestic

markets, it is difficult to see how it will win US approval. Without regulatory clearance, what future can there be for such an alliance?

There are similar doubts concerning the alliance between AT&T and Unisource, the group owned by ITT Telecom Netherlands, Telia of Sweden, Swiss PTT Telecom and Spain's Telefonica.

This uncertainty makes telecoms managers nervous about committing themselves to single-supplier relationships.

Concert, the BT-MCI joint venture company is the most stable of the alliances. It is the

handful of access points in a single country.

Users also face a dilemma in deciding between short contracts of one to two years, or longer, five-year contracts. The introduction of new technology and the advent of competition is driving down the price of international telecommunications services. What looks like a fair price today may be over the odds in two to three years' time.

On the other hand, suppliers are reluctant to offer short contracts. In many cases they can only justify the cost of building a network to meet the needs of

a particular customer on the basis that they will be guaranteed several years of revenues. It can also be expensive for the user to switch outsourcers after only two to three years.

Do companies risk losing their competitive advantage by handing over control of their networks? "People are concerned about giving away their competitive edge," said the telecoms manufacturer of a leading pharmaceuticals company.

"They feel that outsourcing companies have not made enough effort to understand their business," he added. Outsourcees were "gradually" making progress in this respect, he added, but progress was slow.

Does outsourcing necessarily offer lower costs? A number of large users have found hidden costs associated with managing an outsource. For example, users have to install private circuits from their different sites to suppliers' global backbone networks.

Outsourcers may only have a

particular customer on the basis that they will be guaranteed several years of revenues. It can also be expensive for the user to switch outsourcers after only two to three years.

Are global carriers global? In most cases, no. The three key alliances - Concert, Unisource and AT&T; and the alliance of France Telecom, Deutsche Telekom and Sprint - all have a bias towards the US and Europe. Can you really expect multinationals with operations in Asia to had over control of their networks in the region to a UK or European-based venture?

Chase Manhattan, the US bank, is working with a separate supplier in each part of the world because it is not convinced that global alliances can co-operate properly. Its supplier in Asia is Hongkong Telecom, the Cable & Wireless subsidiary, which hubs traffic from its various subsidiaries in the region.

Who takes the lead? If a large user signs up with AT&T-Unisource, which alliance

member will be the lead contractor? It could be Unisource, AT&T or Uniford, the joint venture company.

Can global alliances provide the full range of services that large companies need? Until barriers to competition are lifted, probably not.

Global service providers can only provide public switched telephone services in a handful of countries outside their home markets. The European market will not be liberalised until 1998, although member states are increasingly allowing competitors to offer switched public voice services to closed user groups. But such services can only be delivered over the networks of the incumbent operators. Competing carriers lack local infrastructure and have little control over the "last mile" to the customer.

Are the services offered by outsourcers reliable? And can they really provide the advanced new services that they promise?

Multinational corporations have thought long and hard about the advantages and disadvantages of outsourcing. They are rapidly coming to the conclusion that there are benefits to be had from outsourcing parts of their networks. Four out of the five companies interviewed in a survey this year by Communications Week International, the telecoms industry newspaper, said they outsource at least part of their networks. Another study by the International Telecommunications Users Group indicated that outsourcing has gone further than is commonly supposed.

But international outsourcing still has much to do to prove its capabilities, and outsourcers are only beginning to come to terms with how difficult it is to separate telecoms managers from their networks.

Case study: Barclays Network Services

Beware the Tower of Babel

As network director for Barclays Network Services, Mr Keith Bellamy oversees one of the largest private data networks in the country.

The network, running on lines mostly leased from British Telecom, has been established for eight years and has had at least two large revisions in that time. It connects all Barclays branches and supports all the bank's UK transactions - some 4bn last year. And it is growing very fast.

Data traffic carried on the network grew 60 per cent in 1993-94 and Mr Bellamy expects traffic to double this year. The number of terminals has risen from 30,000 about 18 months ago to 80,000 now. Meanwhile the system has at least one new piece of software added to it every week.

Says Mr Bellamy: "We've got one of every network you could come across. The reality is that networking came from the dungeon of the ivory tower. In the late 20th century we made the same mistakes as the Tower of Babel - almost literally when you consider we have over a dozen message systems."

He estimates the system will need 25bn-27bn spent on it over the next few years. "As technology changes we are getting diminishing returns from investment. We are not a telecoms company even though we have to act like one. And even though I am far from convinced that any external providers can deliver the service we need, we should not be running our network."

This is a hard-headed statement rooted in business sense, according to Mr Bellamy. "My gut feeling, which is not based on much research as yet, is that the costs are going to be

365 suppliers. On the data network side, we've now got that down to less than 80 but we are having to look very hard at the question of managing suppliers. Too often we don't talk a common language with them."

But things are improving. He cites an exercise undertaken by Hewlett Packard and BZW where the two joined forces to identify needs. Mr Bellamy says that other suppliers, such as International Business Machines, are signing more comprehensive partnership agreements.

The emphasis is firmly fixed on partnership. "Five years ago we offered BT our network and they refused. They have changed since then and probably could do it now but often talks with large telecoms companies flounder when our precise requirements are fully understood. We are going to have to work fully together with whoever our partners are." Eight years ago, no one else

people are going to be sorely disappointed.

"It's a morale issue as technology becomes obsolete. We have many people employed in the telecoms area of the company and they see their skills going out of date. We would need a full technology infrastructure in the company to deal with that."

There are other reasons why Mr Bellamy believes the time is right to hand over the operation. "Three years ago, I listened to someone relate with pride that we had as many as

22 sites in the UK and about 2,000 users."

Mr Keen believes that the main reason for running the networks on private lines is cost. "It's a straight rationale. Every six months or so we review costs and tariffs. We've seen increasing negotiable rental charges and some suppliers are now offering free installation."

His colleague, Mr John Dawson, telecoms consultant, sees an extra advantage. "In some ways you take on more trauma when you manage your own network but you're not reliant on other contractors."

Also part of the team are two full-time engineers whose jobs are to solve day-to-day problems and adjust the system to facilitate staff movements. Mr Dawson says it takes just four to six weeks to add another site to the network, and this includes calculating all the costs involved with using different suppliers and lines as well as installation.

Virgin Atlantic has learned from experience not to rely too much on one supplier, in case services are not delivered on time. To that end, the industry's deregulation is perceived as an advantage. Mr Keen's team has more suppliers to choose from and takes full advantage of price competition. A number of deals have been struck with some of the newest entrants, including cable companies.

The scale and complexity of Barclays' operation dictates a different set of needs to those of Virgin Atlantic. But aspiring network managers, currently engaged in constructing their own, smaller, Towers of Babel, have been warned.

The voice network connects

Adrian Michaels

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Case study: Barclays Network Services

TELECOMMUNICATIONS IN BUSINESS 5

Claire Gooding examines Computer Telephony Integration

A two-way long-term relationship

The computer and the telephone can be tied together in various ways - the casual dialogue via modem; the distant, more frustrating encounter with a voice-messaging system that invites the caller to use the touch-tone keypad to divert elsewhere.

Computer Telephony Integration (CTI) is often described as a "true marriage" between computing and telecommunications. It is certainly a two-way long-term relationship, driven by the realisation that the telephone, not the home computer or the television, is the most universal, well-understood and easily available way of delivering information.

"Increasingly in the UK and Europe, people are much more prepared, and indeed willing to do business over the telephone rather than writing to their insurance company or queuing to do business in the bank," says Stuart Bowden, business development director at CTI systems specialist Envoy, and chairman of Actius, the Association of Computer Telephone Integration Users and Suppliers.

"Because of this, companies are having to ensure that the service they give is of the highest quality."

Mr Bowden cites British Air-



Bowden: "People are much more prepared to do business over the phone"

operator alliances

The database is the main difference between CTI and the call-routing ACD systems

ways, recently declared winner of the Actius Integrated Call Centre Award, as a typical example. Its centres in Manchester, Belfast and Newcastle use a CTI system called Rapport to service travel agents for flight inquiries and bookings.

BA's Automatic Call Distribution (ACD) system comes from Aspect Telecommunications - the UK's leading provider of ACDs according to European researchers Dataquest - and is one of the first to use Calling Line Identification (CLID), introduced by BT in November 1994.

New participants are now entering the CTI arena, and recent initiatives by Novell and Microsoft promise to transform its prospects, according to a report, "Computer Telephone Integration: the business opportunity", published by consultants Ovum. As well as predicting CTI growth in Europe, from current levels of \$339m to \$3.31bn in 2000, Ovum's report emphasises how sympathetic suppliers have become to their users' business aims.

CTI applications use a range of different technologies, and can be found in every area involving service, including financial institutions, utilities and travel organisations.

In the simplest form, they are used in customer service departments to identify the incoming call (for example, a toll-free number used for a specific service or inquiry) and to pass it to the next available

implemented by its own wholly-owned company AxSys.

NBK was an voice-system innovator with its Arabic-English bilingual IVR system. Launched in 1990 just before Iraq's invasion, the system helped it to emerge from the Gulf War in good shape. Its success spawned AxSys, which now offers core retail banking services all over the world.

In the Philippines, AxSys has set up a telephone banking system shared between 21 local banks. The Megalink central computer is linked to hundreds

of ATMs (Automatic Teller Machines). Users call a single number, and are switched through to the appropriate telephone banking service.

The service cuts the cost of delivery. "If you can take the transaction out of the branch and put it on an ATM, you cut the cost of that transaction by 90 per cent," says Richard Stutely, director and executive vice-president of AxSys.

"If again you take it off the ATM and put it onto a telephone banking system, it is generally agreed in the banking industry that you cut the costs again by a further 90 per cent."

Other innovative users include Skandia Bank, a Swedish customer which has a single high-street branch in Stockholm, but offers instead a free IVR service. Its low costs and fixed charges for ATM and other transactions enable it to offer an interest rate 4 percentage points higher than rival savings accounts, and this has proved an incentive for customers to manage their money interactively on a daily basis.

Another Swedish customer, South West Electricity, has saved hours of frustration and massive administrative costs by allowing users to enter their own meter readings into an

IVR system. "The technology is not new," says Mr Bowden, "but there's also a better understanding of how to build a business case for the investment, with quantifiable business benefits. Companies are now looking for more sophisticated ways to use CTI to differentiate themselves in the marketplace."

He believes the UK is far ahead of most of Europe in implementing CTI and more or less on a par with the US in terms of market penetration per head of population.

"Germany is just waking up to the potential, and it's now taking off across Europe in Spain, Germany, and Scandinavia. The very fact that Novell and Microsoft have started to take an interest has also helped the market."

The Asia Pacific markets also provide about 20 per cent turnover for Octel, which claims to be the largest supplier in the world of voice-messaging systems, with 35 per cent of the voice-processing market, ahead of AT&T, Northern Telecom and Rolm. Octel supplies voice-messaging systems to Microsoft, the world's largest software house, and is working on an integrated voice-messaging and e-mail system to run under

Microsoft's Exchange client-server e-mail systems.

Octel took over the strategic alliance that its competitor VMX had already established with Microsoft when it acquired VMX in January 1994. Development work in Octel's client-server development section, based in London, started in October 1993, with Microsoft engineers.

"What we've worked on is the integration of voice-mail with e-mail," says Mr Hyde-Thomson. "The telephone handset is the point of delivery. What's new for us is that

we're now integrating with the world's largest software house, Microsoft, on its Exchange client-server e-mail system. Our customers will be able to use the new Geneva technology as an add-on component to existing systems."

References:
Actius - Tel 01372 361000 - also publishes an excellent guide to CTI terminology: contact Roy Bailey.

Ovum: *Computer Telephone Integration: the business opportunity* published January 1995. Tel: 071 255 2670



British Airways recently won the Actius Integrated Call Centre Award

PHOTO: Tom Andrews

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**Case study:****CTI at Domestic and General****Database has created a valuable opportunity**

"Sony Help Line, can I help you?" "Philips Quoteline, how can I be of service?"

In fact, the room full of people giving these diverse answers to telephone calls are working for a different company altogether: the insurance company Domestic and General, in Wimborne, south London, writes Claire Gooding.

D&G is using Computer Telephony Integration - a powerful combination of telephony and a computer database. This allows its operators to service insurance policies for more than three dozen different manufacturers, some to extremely tight service level agreements. The database has enabled D&G to create flexible products, such as the Multi-Appliance Monthly Policy, which covers a range of appliances from different suppliers on one policy.

In business since 1912, D&G has carved itself a specialist niche in the insurance and care of domestic appliances, dealing with 40,000 claims monthly for more than 2.5m policy-holders. Its CTI system has enabled its 70 staff to handle the 96,000 calls a month; only a few years ago it needed 12 staff to take 4,000 calls a month.

For a customer whose equipment goes wrong, the switchboard at D&G operates a 12-hour service, seven days a week, covering everything from video players to gas central heating.

D&G's Antomatic Call

Distribution (ACD) system from Rockwell Telecommunications allows staff to identify which helpline the customer has dialled, so that they can respond with the appropriate manufacturer's name.

The CTI element of the system brings up a database record of the customer, so that any operator can instantly see the entire history of previous service calls. The system provides the number of a local repair agent and takes care of all the payments.

The CTI database has created a powerful and valuable opportunity for D&G to use its system for marketing and other purposes. It has recently launched First Domestic - a central heating insurance contract backed up by a 24-hour repair service.

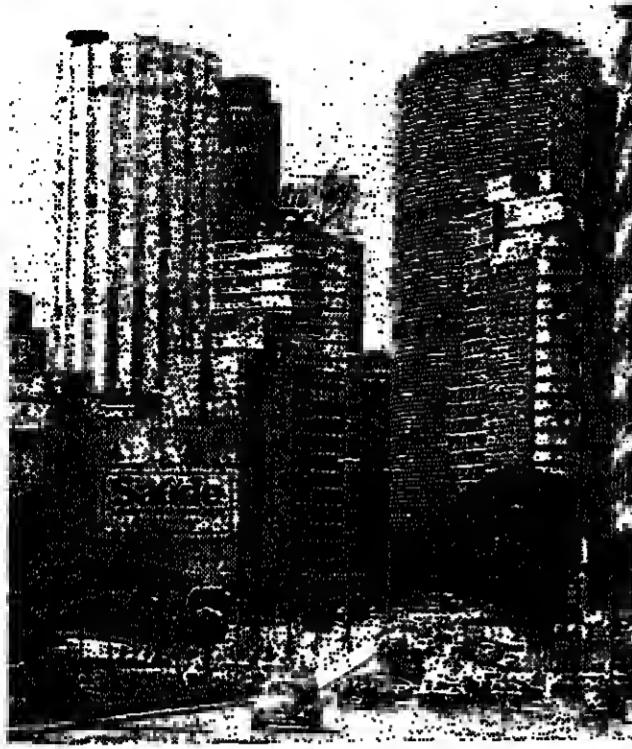
Another bright idea was to use the database and CTI techniques for product recall campaigns, where appliances have to be recalled because of specific faults. There are four such campaigns under its belt, including a high-profile recall of a child's car safety seat, and D&G plans to expand this new business service.

It is typical in discovering that CTI is not just a low-cost and efficient way dealing with calls; it is a technology that creates business opportunities. CTI applications tend to be geared towards giving real service, unlike voice-messaging systems, which callers often find frustrating to use.

of Babel

13Y

TELECOMMUNICATIONS IN BUSINESS 6



Sao Paulo: cellular phones were only introduced in 1983

By Michiyo Nakamoto
in Tokyo

Last month, NTT, Japan's domestic telecommunications carrier, encountered the wrath of one of its customers in the form of a petition filed to the country's competition authority.

Bloomberg, the business news agency, complained to the Fair Trade Commission that NTT's decision to raise the price of using local digital leased phone lines by as much as 83 per cent, while at the same time significantly reducing the price of long-distance lines, constituted an unfair competitive practice.

The company also criticised NTT's decision to raise digital line prices while maintaining the prices of analogue lines, which are used by an NTT subsidiary and a competitor to Bloomberg in providing information and systems to the investment community.

The price of digital phone lines in most parts of the world was cheaper than in Japan, which was the only country where prices were going up rather than down, the company said. How could NTT "claim to be at the forefront of the multimedia industry and at the same time almost double the price of digital phone lines?" Bloomberg asked.

The complaint by Bloomberg sums up the view of many business and individual users of telecommunications services in Japan. To many users, Japanese telecoms services are both

High rates and slow progress

International perspectives: Japan

too expensive and slow to come to market.

According to Bloomberg, a local 64-kilobyte digital phone line leased from NTT and covering an area within 15km, costs ¥42,000 a month, or eight times a similar line leased from Metropolitan Fiber Systems in New York, which costs \$140 - or Y11,800 at current exchange rates of ¥85 to the dollar. NTT's plan to increase the price would widen the gap even further.

NTT points out that its decision to raise some local digital line prices and reduce long-distance prices stems from a need to rebalance its rates in order to ensure that its loss-making local operations become profitable. The new local leased line rates better reflect the actual cost of providing the service.

However, the argument serves to raise questions about NTT's cost structure. Bloomberg is not the only company that points out the high cost of NTT's leased lines. AT&T International, a US information agency, has also complained about NTT's plan to increase prices.

The rates for domestic leased lines covering 100km to 300km and at speeds of 1.52 megabytes a second cost twice the international average and eight to 10 times more than the standard rates in the US, according to a report by Morgan Stanley in Tokyo.

Meanwhile, NTT raised its basic rate charge to all phone users in February this year, pushing it to about twice the basic rate charged in the UK and France.

If the cost to NTT of providing its services calls for rates that are much higher than the

those charged by AT&T while those between Japan and the UK are 54 per cent higher than the rates charged by BT, according to a study by the Management and Co-ordination Agency.

The study compared the cost of making a three-minute phone call during afternoon hours on weekdays.

While overall Japanese prices are in general much higher than those in other industrialised countries, much

the delay in introducing new services lies in a lack of competition.

Liberisation of the tele-

coms market in 1985, which

opened up the domestic market

to three new long-distance car-

riers, resulted in significant

competition in the long-dis-

tance market. But

"there is still not enough com-

petition in the local market,"

points out Mr Norio Nakamura, senior assistant director

of the Industry and Telecommuni-

cations Department at Keidanren, the business organisa-

tion.

Without effective competi-

tion in the local market, NTT

has little incentive to cut costs

so that it can reduce rates.

Neither will it have much incen-

tion to speed up modernisation

of its local network or to bring

new services to the market.

Japanese business leaders

are convinced that with the

maturity of manufacturing

industries, telecommunications

will be an important engine of

the Japanese economy in the

21st century.

The Management and Co-ordi-

nation Agency further criti-

cises NTT for being slow to

introduce a wide variety of dis-

count services and notes that

some regional NTT offices

have not been willing to carry

out connection work on week-

ends and national holidays.

Most people agree that the

fundamental cause of the high

cost structure among Japan's

leading telecoms carriers and

Keidanren, the business organisa-

tion.

But for the development of

multimedia and other new tele-

coms business which are

expected to support future

growth, "telecommunications

rates have to be low and ser-

vices have to be widely avail-

able," Mr Nakamura says.

As Japanese authorities

debate the telecoms regime in

a fundamental review to be

concluded next March, those

considerations will be a deci-

sive factor in setting the future

course of the industry.

International perspectives:

Brazil

Business users
rue the dayBy Angus Foster
in São Paulo

Ask a business user in Brazil about the country's telecommunications services, and the reply is likely to begin with a well-chosen swear word.

There are two main complaints. Business rates are extremely expensive, thanks to cross-subsidies for residential users. And services are extremely limited because the government and its telecommunications monopoly Telebras have lacked the finance to invest or the competition to lift performance.

The result is that although Brazil has the world's 11th-largest telecommunications network as measured by terminals, much of the system and services available have hardly been modernised since they were installed in the past two decades.

Underinvestment by Telebras since the early 1980s, mainly due to Brazil's overall economic crisis, has left the country with only about seven terminals for every 100 inhabitants: one of the lowest figures in Latin America. Call failure rates are up to five times

higher than in Europe or the US. The One complicating factor which needs to be resolved is the pricing regime

most important industrial state, is two years.

Business users face special problems. Most exchanges are still pulse rather than tone, limiting the business uses of telephones and leaving executives distraught when they encounter tone-operated voice-response units (VRUs) overseas. Only a third of exchanges are digitalised and fibre optic cables are only now being laid on long-distance routes, leaving much of the system with poor-quality lines.

Those business services which are available, mainly provided by Embratel, Telebras' long-distance arm, are limited to basics such as packet switching and dedicated lines. A wide range of services, from advanced data transmission such as frame relay to simple conference calls, are not available. One company uses its US head office to set up conference calls in Brazil. Although far from ideal, the mechanism is also cheaper since calling from Brazil to the US costs \$1.80 a minute: more than twice the cost of a US-Brazil connection.

Modernising Brazil's telecommunications will take time, but a start does finally appear to have been made. Congress last month started discussing an amendment to the constitution which would break Telebras' monopoly and allow private sector competition in telecommunications. The proposal, which needs approval in four separate votes, has so far been well received and could become law later this month.

"It's a good sign and shows we are on the right track. But many of the details are still to be resolved," says Mr Carlos de Paiva Lopes, chairman of equipment supplier Ericsson in Brazil.

Mr Sérgio Motta, communications minister, believes that the state alone does not have the resources to invest the \$30bn-\$35bn which will be needed to upgrade Brazil's telecommunications until the end of the century. With plans to nearly double the number of installed terminals to 23m by 1999, the private sector will increasingly be needed to invest in areas such as cellular networks.

Even low-orbit satellite com-

panies serve as a symbol for much of what is wrong with the state monopoly.

Cellular phones were only introduced in São Paulo in 1983 and there are now between 1m and 2m people on waiting lists for terminals in Brazil. The rush for lines, partly fanned by the waiting list for conventional telephones, has already congested Band A frequencies in São Paulo while Band B remains off-limits to private competition until the constitution is amended.

Mr de Paiva Lopes of Ericsson estimates that the market for cellular telephones could reach 5m terminals, suggesting Brazil could be one of the fast-growing world markets and extremely attractive to private investment. Value-added services such as data transmission would also be interesting for companies such as Sprint. "What is available in Brazil today is extremely restricted," says Mr Loureiro.

One complicating factor which needs to be resolved before the private sector will invest to start providing these services is the pricing regime. This has been used to subsidise residential users, especially in less developed regions, to the disadvantage of businesses and overseas callers. Telephone charges have also frequently been kept down by governments looking for politically harmless measures against inflation.

The monthly standing charge for a residential user is \$0.70 while a one-minute local call costs about \$0.02. Embratel's international rates, among the highest in the world's major economies, have been subdivided by an increasing number of call-back services on offer from mainly US companies. But structural changes to the pricing regime remain unlikely in the short term because they would add to officially measured inflation, the government's number one enemy since a new currency was launched last year.

Given these problems, and the likely delays working out a new legal structure, business users are likely to be swearing for some time yet before the potential of Brazil's telecommunications market comes into view.



TELECOMMUNICATIONS IN BUSINESS 7

By Andrew Hill
in Milan

It is probably no exaggeration to say that the Italian telecommunications sector has seen more changes in the past year than in the previous decade.

This year alone has seen the formation of a series of new telecoms alliances aimed at the business market. And within the last year, even the state-controlled sector has undergone a metamorphosis – evolving from a complex collection of linked operating companies, some quoted and some wholly owned by the state, into a single entity, Telecom Italia.

The overall structure is still relatively complicated. For example, a majority of Telecom Italia's shares are still owned by Stet, the state-controlled telecoms holding company which could be privatised later this year. But for the business client, who used to have to deal with different operating companies for domestic, European and intercontinental calls, the Telecom Italia merger has greatly simplified matters.

Nevertheless, Telecom Italia remains the company to beat in Italy. As an illustration of its importance domestically, both the Italian group and its foreign competitors still assess the potential size of the business market with reference to the state-controlled company's turnover.

Mr Di Genova estimates that in the business sector, some 12,000bn of annual turnover is already deregulated, and perhaps 15,000bn will be open to competition by 1998. But even then Telecom Italia's business services division will have an

until recently had an unenviable reputation for inefficiency. While Telecom Italia has restructured and modernised, rival ventures, including British Telecommunications, Cable & Wireless, AT&T and the Uni-source alliance, have begun to make inroads into its established business.

The latest alliances, aimed initially at the business client, include Infostada, a joint venture between Olivetti, the computer group; Bell Atlantic, the US telecoms company; and Albatom, which links BT's expertise with the existing communications infrastructure set up by Banca Nazionale del Lavoro (BNL), one of Italy's biggest banks.

But Telecom Italia is not resting on its laurels, and competitors are not reducing the pressure on the market leader.

The past year, for example, has seen an acceleration in the number of companies preparing to outsource telecoms services. Telecom Italia points out that whereas it won only 15 large contracts for outsourcing in 1993, it had 35 in 1994 and has already agreed 40 in 1995.

For example, Telecom Italia won an important contract to manage the telecoms needs of Pirelli, the tyre and cable manufacturer, which, under its

exclusive hold on about 13,000bn of sales related to infrastructure charges and other areas.

Mr Di Genova points to Telecom Italia's home advantage in ISDN (integrated services digital network) and wide-band communications for academic and scientific use.

Olivetti recently decided to reverse its decision to sell a data processing subsidiary because of the potential for outsourcing of the data processing and telecoms services.

Foreign companies have tended to concentrate until recently on winning internal business. For example, by bidding aggressively against Telecom Italia and other international groups, Cable & Wireless, the British telecoms group, won a contract in March to handle the international telecoms needs of Sham, the gas company which is part of Eul, the state-owned energy and chemicals group.

On the domestic market, competitors have been hindered partly by Italy's sluggishness to implement European Union directives on the liberalisation of specialised telecoms services, and Telecom Italia's desire to prevent a free-for-all in its own market.

Mr Stefano Borghi, the new chairman of Cable & Wireless Italia, believes that in the medium term there is some

managing director Mr Marco Tronchetti Provera, has been placing increasing emphasis on internal communications, including the use of video-conferencing and other advanced techniques.

Olivetti recently decided to reverse its decision to sell a data processing subsidiary because of the potential for outsourcing of the data processing and telecoms services.

But larger competitors have also taken advantage of the ruling to step up their marketing of services within Italy. Mr Michael Yates, marketing manager for BT's Italian operation says: "We can now offer all the data services, nationally and, using the Concert alliance with MCI (the US telecoms group), internationally."

BT's agreement with BNL also gives the company the chance to use a domestic network with more than 100 nodes in Italy, compared with the 18 to which BT had access before.

"We had two possibilities if we wanted to offer domestic services: either to install other nodes throughout the country or buy the network from someone else," says Mr Yates.

Mr Stefano Borghi, the new chairman of Cable & Wireless Italia, believes that in the medium term there is some

Telsystem, a small Milan-based company, to lease lines from the national operator to offer business services, such as so-called "virtual" telecoms networks linking a company's offices. Mention of the Telsystem case still irritates Telecom Italia executives, who accuse the small company of simply taking advantage of the state-controlled company's rigid tariffs.

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Cable & Wireless' hopes, like those of all Telecom Italia's competitors, are pinned on the possible liberalisation of infrastructure, and the chance to exploit new opportunities in the domestic market. In the meantime, Mr Borghi believes Telecom Italia could learn from BT's experience in Britain.

"They should realise that domestic competition allows the company to become an international player," he says.



This year has seen the formation of a series of new alliances aimed at the business market Picture: Simon Mayes

International perspectives: Italy

New alliances take shape

International perspectives:

Germany

Monopoly comes under fire

By Michael Lindemann
in Bonn

Criticising the quality of telecommunications services in Germany has become a favourite pastime in recent years – especially as more and more business users have realised that they are not being offered the prices and the quality that is available in more liberalised markets such as the UK, Sweden or the US.

In those and other markets, several national telecoms operators are already competing with each other, a process which has improved the quality and quantity of services available to corporate users.

However, business users in Germany, the world's third-largest economy, are still beholden to monopoly operator Deutsche Telekom, which, although it has made notable progress in recent years ahead of a partial privatisation in 1996, still provides services which, users say, are much too

often voiced by business users. Deutsche Telekom has focused its resources on expanding its Integrated Services Digital Network (ISDN), the 64 kilobit lines which are well suited to the internet and other multimedia services and where Germany has now created one of the world's largest networks.

Mr Eickers accepts that ISDN is a valuable asset but that it is too technical and largely meaningless to most business and private users who would rather have value-added services such as EDI.

When confronted with complaints from business users, the BMPT argues that Germany is by no means the slowest among European countries to liberalise its telecoms market. The monopoly should be maintained until 1998, the BMPT says, so that Deutsche Telekom can prepare for privatisation and, among other things, generate the revenues needed to pay for the DM50bn investment programme undertaken in former East Germany since 1990.

But while liberalisation may be moving too slowly for many business users, progress is nonetheless being made.

For months, private operators such as the utilities RWE, Veba and Vies – all of whom were to provide corporate network services before 1993 – had been complaining that the government and Deutsche Telekom were flouting European Union guidelines by insisting that such services could only be provided to a so-called closed user group – third parties with whom the operator has a long-standing business relationship.

At the beginning of May, the BMPT acknowledged that its definition was too restrictive and fell in line with the more relaxed criteria used by Brussels.

Changes in the way telecoms services are provided in Germany may have also been stymied by the fact that lobbies representing business users' interests are relatively undeveloped and are still bound to

Like others, AFT complains that the cost of calls in Germany is still too high

Deutsche Telekom.

The Anwendertor Telekommunikation (AFT) is the only group of its kind and represents about 250 companies. It was started in October 1992.

Like many other groups and business executives, AFT complains that the cost of calls in Germany is still too high in comparison with the international competition – a fact that feeds through directly into the cost of corporate networks because private companies wanting to offer such services still have to rent the lines from Deutsche Telekom until 1998.

However, Mr Dietmar Stosiek, an AFT spokesman, says that a variety of AFT demands – including help desk for international lines and improved standard fixed lines – have already been implemented by Deutsche Telekom.

AFT's first big study into corporate networks was not funded by Deutsche Telekom but the company does finance an unspecified variety of AFT "association costs" which, as one observer pointed out, raises questions about the organisation's independence.

Meanwhile, well over two years before competition begins in earnest in Germany, in 1998, many of Germany's biggest companies are looking very closely at products on offer from international competitors such as AT&T, the US telecoms operator, or BT.

That, says one telecoms analyst, is ample evidence of the fact that many Deutsche Telekom clients remain dissatisfied with the quality and cost of services on offer.

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TELECOMMUNICATIONS IN BUSINESS 8

US developments: deregulation

Change seems inevitable

By Tony Jackson
in New York

For US business users of telecoms, one of the most far-reaching items on the agenda is deregulation. With separate bills for telecoms reform under consideration by Congress and the Senate, change seems inevitable. The question is how far business users will benefit and that depends above all on the legislative detail.

The basic premise is that the present regulatory framework in the US has created a network of local and functional monopolies. In turn, these give rise to monopoly rents. It follows that if the system is made genuinely competitive, the customer stands to gain on price.

By the same token, producers stand to lose. As a result, says an executive from one big US corporate customer, the initial motive for deregulation risks being distorted. "The whole thing that drove this", he says, "was the need to create an infrastructure. But the practical politics are being totally driven by companies trying to re-position themselves in a radically changing world."

A clear example of this is the debate over allowing local and long-distance telephone companies to compete in each other's markets. Since the break-up of AT&T a decade ago, this has been forbidden on competition grounds. In principle, both the House and Senate bills are now working to change this. The crucial question is one of timing.

Mr Tim Regan, of the US multinational Corning (a big telecoms user, but also a leading supplier of fibre optics to the industry) says that if long-distance companies are allowed to provide local telephone services but not vice versa, the results could be devastating.

What then happens, he says, is that the local company – one of the hugely powerful Baby Bells, such as Nynex or US West – sets itself up as a least-cost provider of routing schemes for long-distance calls. "Then the company tells me, as a customer, that it will collect services from all the 25 or so long-distance providers for the community, and will provide the cheapest solution. Then AT&T and the other long-distance companies will become

wholesale providers of a commodity, and the local company becomes the monopoly retailer."

The result, he makes clear, would be very bad news for the customer. "If [deregulation] is done right, the customer squeezes all the rents out of the system. If it's done poorly, and local phone companies get into these other areas before the monopoly is broken, it's a disaster."

The point is reinforced by Mr Michael Brown, vice-president for federal legislation at AT&T. It all comes down, he says, to doing things in the proper sequence. "There are three ideas here: monopoly, competition and deregulation. The first step has to be to end the existing monopolies. If you move to deregulation before tackling the monopolies, you may not get

For business customers, the challenge is different to move from a world of monopolies to developing the ability to choose between suppliers

competition." So far, there seems general agreement that both the House and Senate bills are aware of this threat, and that the result should be genuine competition between local and long-distance suppliers in each other's markets. At the same time, there will be relaxation of the rules which bar telephone companies out of the cable TV market, and vice versa.

The promised explosion of choice will then confront the industry and its customers with a central question: whether to take services, from voice and video to computer data and components, from a one-stop shop provider or from niche providers of specialised services.

It seems clear that all the big phone companies, at least, will push the one-stop option as hard as they can. Mr Michael McDonough, president of business markets at the local telecoms giant GTE, says: "We and the other larger suppliers will compete on a package basis – voice, video and wireless – against the smaller niche suppliers. There will be winners and losers, depending on which particular areas of the customer base they choose to compete in."

As for the industry giants, he suggests, the key to success in package solutions will lie in technical expertise rather than price. "Many of us will have similar strategies, and it comes down to execution – especially speed – with cheapness less of an issue."

For business customers, the challenge is different: to move from a world of monopolies to developing the ability to choose between suppliers. As Mr McDonough points out, for many US business customers, the arrival of specialist competing phone companies such as MFS Communications means the local monopoly no longer exists. All the same, he says, "the challenge for business customers is how to manage across multiple suppliers."

From the customer's viewpoint, there is one other central issue to be determined in the deregulation debate. At present, telephone and cable TV companies are largely barred from each other's markets. The convergence of technology means they are starting to invest heavily in duplicating each other's functions.

In an unregulated market, this duplicated effort would be promptly stopped by the process of merger between telephone and cable companies. The Senate and House bills differ on how far this should be allowed: the Senate would permit it on a local level. Congress only within communities of under 35,000 population – less than 15 per cent of the US population.

Mr Brown of AT&T sees real competition between cable and phone companies starting to appear within the next year. "You'll see the cable companies offering the first real true interactive networks, including voice, and the phone companies offering video". But he is not unduly worried about the threat from merger. "Both the Justice Department and the FCC (Federal Communications Commission) would look at any merger under existing laws, and they're not being over-ridden by either of the bills."

Nevertheless, the threat remains that monopoly will re-emerge under another guise. As Mr Regan of Corning puts it, "this gets to the core of what the deregulation bills are about. Are we building an infrastructure, or are we reshuffling the same deck of cards?"

By Louise Kehoe
in San Francisco

The US cellular telephone industry reached an historic milestone earlier this year when it tallied a total of 25m customers. One out of every 10 Americans now has a cellular phone. The industry's customer base has more than doubled in the past two years, with new customers signing up at a rate of 28,000 a day.

The industry posted record gains in revenues, capital investment, new jobs, and cell sites last year, according to the Cellular Telecommunications Industry Association (CTIA), a trade group representing cellular telephone companies.

US cellular revenues for 1994 exceeded \$14bn, an increase of 30 per cent over \$10.9bn in 1993. While revenues rose sharply, cellular service prices continued to decline. The average monthly customer bill dropped to \$56.21, compared to the 1993 average of \$61.48 a month.

The industry invested a record \$2.5bn in new equipment and infrastructure during the last six months of 1994. In 1994, the number of new cell sites, the basic building blocks of a cellular system, increased by more than 5,500 – a 40 per cent increase – to a total of 17,920. As the industry data demonstrate, the cellular telephone has moved beyond the business market to become a mass market consumer product in the US. It remains, nonetheless, a critical business tool. What is more, enhancements in wireless communications ranging from cellular data communications to personal communications services promise continued expansion of business applications.

Several US cellular telephone service companies have augmented basic telephony with integrated wireless services such as data access, faxing and paging. Cellular phone companies also offer services such as voice mail, information services, and even roadside assistance for motorists.

The US cellular industry faces new challenges, however, with the development of digital cellular technologies and the anticipated launch of new "personal communications services" (PCS) also known in the UK as personal communications net-

Cellular telephones

works. The high penetration of analog cellular services in the US has created a market barrier to the introduction of digital cellular and PCS. By the time PCS is launched in the US, in about a year's time, cellular penetration will exceed 13 per cent of the population, according to Herschel Shosteck Associates, a market research firm.

In contrast, when PCS networks were introduced in the UK and Germany, cellular penetration was less than 3.5 per cent of population.

The prospects for digital cellular and PCS in the US market are further complicated by the lack of agreed standards for either. The options include several variants of Time Division Multiple Access (TDMA), Code Division Multiple Access

(CDMA) and Global System Mobile (GSM) a European standard based on TDMA.

Over the next five years the North American wireless telephone market will become fragmented, with a variety of access technologies, predicts Link Resources, a US market research firm.

Although TDMA and GSM are proven technologies with a growing subscriber base in the US as well as abroad, the majority of US manufacturers agree that CDMA will become a significant alternative digital technology, market analysts say.

Ameritech, a regional telephone company, announced late last year, for example, that it will adopt CDMA technology for new services in Chicago and Detroit.

"We have selected CDMA technology because we feel it will offer our cellular telephone customers superior call quality, security, fewer dropped calls, improved system access; and a host of new features and data applications," said John Rooney, president of Ameritech cellular services.

CDMA technology provides a superior solution for cellular communications, cordless home and office phones, and personal communications services, its proponents say.

CDMA and Global System Mobile (GSM) a European standard based on TDMA.

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Ameritech, a regional telephone company, announced late last year, for example, that it will adopt CDMA technology for new services in Chicago and Detroit.

"We have selected CDMA technology because we feel it will offer our cellular telephone customers superior call quality, security, fewer dropped calls, improved system access; and a host of new features and data applications," said John Rooney, president of Ameritech cellular services.

CDMA technology provides a superior solution for cellular communications, cordless home and office phones, and personal communications services, its proponents say.

Uncertainty over standards

FINANCIAL TIMES

THURSDAY JUNE 15 1995

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INTRODUCING A GATEWAY TO LONDON THAT MADE A CELLULAR OPERATOR SMILE



Tim Roberts is project manager of Mercury One-2-One, the world's first personal communications network, serving over 200,000 people in the South East and West Midlands. Tim enjoyed the experience of the world's leading supplier of digital and analog cellular systems.

It happened one June day in 1993, in one of the more quiet corners of central London. Tim Roberts was inspecting the construction of the new Mercury One-2-One cellular system, when all of a sudden it hit him that he could improve the system.

To ease the flow of traffic and to untangle administration services, Tim envisioned a management gateway. (Sort of like the innovative mechanism used to control the flow of water in the Thames river, if you will.) It gave customer service attendants a tool to better manage the network.

Dreaming up this idea was one thing, making it happen was something altogether different.

With ten months to go until the system had to be operating, Ericsson brought in a group of six specialists. Their demands were simple: Total access to Tim; plus the freedom to think and act creatively.

Soon they criss-crossed the North Sea in a process where ingenuity is everything, and the specialists were an ingenious team if there ever was one. Fifteen thousand man hours, and eight months later, they delivered.

Aside from the 110,000 inquiries the One-2-One network received on opening day, the families of the engineers were delighted that the team were back in Sweden two months ahead of schedule.

Much like the people who made the Thames river idea happen, Ericsson makes cellular happen.

Ericsson Radio Systems AB, S-164 80 Stockholm, Sweden.

ERICSSON

Wireless communications

Firing imaginations

By Geof Wheelwright

Wireless communication appears to be all the rage in the US at the moment – with paging companies, computer manufacturers and service providers all rushing to cash in.

"One recent recipient of a great deal of industry attention in this area is telecommunications giant AT&T – whose PersonalLink wireless data communications service seems to be firing the imaginations of hardware developers who have developed wireless hand-held computers and "communicators" to use with the service."

As part of this awareness, it seems both business customers and consumers are becoming familiar with terms such as "intelligent messaging" and "intelligent assistants". The latter are essentially mobile software programs that go to places in the electronic community and carry out their owners' instructions.

AT&T's catalogue of PersonalLink Services bills itself as "the first commercial service that enables its subscribers to employ intelligent messaging with the help of intelligent assistants".

For example, subscribers can send electronic mail to one another using only their names to address the messages. They can automatically forward messages from particular people to someone else's computer or paging device, or have copies of messages about specific subjects made and sent to colleagues.

In the future, intelligent assistants will be able to perform even more complex tasks, such as notifying subscribers of changes in stock prices, searching publications and data bases for information of particular interest to the subscriber, or making travel reservations with AT&T network."

AT&T says that today's messaging networks are essentially message-switching operations "with limited flexibility for tailoring applications to particular needs". In contrast, AT&T says its PersonalLink Services is operated as a message processing network. Users can send to AT&T PersonalLink Services who they buy a personal communicator or other device that incorporates Telescript language capabilities. The first commercially available product with PersonalLink Services and Telescript built in was the Sony Magic Link personal intelligent communicator – although the Motorola Envoy had been announced before the Sony device.

PersonalLink is used by both of the most highly-publicised hardware releases of the past year – the Sony Magic Link and the Motorola Envoy – and was at the heart of Panasonic's announcement of its personal communicator at the Consumer Electronics Show (CES) in January.

According to Bill Weber, the PersonalLink Services wireless program manager at AT&T in the US, Americans may soon

be joined by Canadians and Europeans as users of this service.

The company is discussing partnerships with several international telecoms providers to arrange this. It will not happen overnight, however.

"Our expertise and focus is in the US (right now)," says Mr Weber. "Using PersonalLink, wireless and wireline capabilities are fully integrated. Wireline and wireline communications are normally separate, but with our service and the user interfaces being deployed on these devices (such as the Magic Link and the Envoy), they are seamlessly integrated."

AT&T gave it the name PersonalLink Services because it is supposed to be able to accommodate each subscriber's personal preferences for handling day-to-day tasks with the help of the "intelligent assistants".

Intelligent assistants can be thought of as extensions of the Internet.

For example, subscribers will be able to connect to the Internet via a PC and a telephone line, and will be able to receive e-mail directly from their PC.

The company also pledges that subscribers can send messages to virtually any fax machine in the world.

Using PersonalLink Mail intelligent assistants, subscribers have access to what AT&T calls powerful "filtering" capabilities, which means they can screen messages based on who is sending the message or what it is about. These filtering abilities work for messages sent from other PersonalLink Services subscribers as well as messages from people using other services, such as the Internet.

While all of these plans may seem rather "pie in the sky" to users outside the US, the fact is that they will probably catch on with people unaware. With a growing mood of deregulation in almost all world markets – and a desire to see global operation of wireless services being driven by telecom giants such as AT&T – it would not be surprising to see services such as AT&T PersonalLink in a number of markets outside the US within the next couple of years.

General Magic will be doing its best to make this happen by arranging further deals to put its Magic Cap operating system on other hand-held computers over the next year. The company is developing a desktop version of Magic Cap so that desktop computer users can also have access to wireless messaging and exchange messages more easily with Magic Cap-based communicators.

This is a very powerful idea. One

TELECOMMUNICATIONS IN BUSINESS 9

International perspectives: China



Work on a 1400km digital transmission link from Wuhan to Chongqing in China, supplied by GPT



A GPT telepoint system in use in Ningbo, China plans to spend Yn450bn by the end of the century

A breach in the wall

By Tony Walker
in Beijing

China United Telecommunications, a fledgling telecommunications company, is due to put China's first digital cellular network into operation in July.

This will be an event of no small importance in the evolution of the world's fastest-growing and, potentially, highest telecommunications market.

China Unicom's venture will mark a significant breach in the wall of the state telecommunications monopoly.

China Unicom was launched last year as the operator of a second telecommunications network in tandem with the all-powerful Ministry of Posts and Telecommunications. While representatives of the new company, which is backed by the ministries of electronics, electric power and railways, said their aim was not to compete directly with the MPT, competition is inevitable.

Unicom's first venture is in Shanghai, China's fast-evolving business centre. The new digital cellular phones will provide higher quality and more secure lines than the analog system presently in use now. This is a pattern Unicom plans to repeat throughout China.

Western telecommunications companies, including both operators and manufacturers of equipment, have welcomed Unicom's birth as an important sign that China at last is freeing up its heavily-regulated telecommunications sector, but Beijing has made it clear that for the time being foreign companies will not be allowed to become directly involved in network operations.

This has not prevented foreign operators seeking opportunities as consultants and partners to both the MPT and Unicom. Telstra of Australia last month became the latest foreign telecommunications company to open an office in Beijing, and representatives made no secret of the fact that their ultimate aim is a share in China's network operations.

Other foreign companies eyeing China's network operations covetously include: Ameritech which is an expert in systems management; AT&T, voice data; British Telecom, electronic mail services; Hong Kong Telecom, transmission facilities; IBM, assistance for development of China's new "superhighways"; Hughes Network Systems, satellite earth stations; and Nynex, network assistance for China Unicom.

International interest in China's telecommunications operations is hardly surprising, given requirements. The MPT spent some Yn150b (\$6.5bn) last year on extending the network. China plans to outlay Yn150bn, including \$7bn in loans from abroad, by the end of the century with the aim of achieving a national telephone penetration rate of 8-10 per cent (phone lines per 100 people), of which 70 per cent were private. This year, China plans to lift the penetration rate to 4.2 per cent, and a new digital data network will be installed to link some 500 cities and townships.

China is also pressing ahead with ambitious plans to extend a fibre-optic cable network specified in the eight five-year plan (1986-91 to 1995-96). Some 17 of 22 fibre-optic lines have been completed, leaving a handful of important projects for this year. These include Beijing-Xian; Beijing-Guangzhou; Beijing-Lanzhou; and Hangzhou-Chengdu.

China's huge requirement for a vast range of telecommunications equipment has proved irresistible for foreign companies which are now involved in a vast array of activities - from manufacturing fibre optic cable to producing cellular phones and paging systems.

China's cellular phone market is set to explode. According to a recent survey, numbers of cellular phones will increase by 500 per cent over next two years, bringing mainland users to 3m. But pirating problems are serious. Theft of phone numbers is a common occurrence.

Motorola leads the pack in

FAXES

New products on the way

With the advent of computer communications, one might have been tempted to ring the death knell for fax. But far from dying, fax is continuing to grow, although it is adapting to demands from customers for computer links.

It is estimated that there are now between 50m and 100m fax machines in use worldwide and the number is still growing. In the UK alone, there are 1.5m installed machines, and 420,000 new machines were sold in 1994. The indications are that 1995 sales will exceed that number.

However, fax manufacturers are aware of the need to keep up with the demand for computer communications. The latest developments focus on direct connections between fax machines and computers, so that people can send faxes directly from their computer or network. The new products are being designed as an "all-in-one" office machine that can be used as a scanner to scan into the PC, as a printer and as a copier, fax or PC-fax. They are sold with software which lets an individual user control the machine directly from a PC.

Some manufacturers such as NEC, Ricoh, Konica and Oki already have an all-in-one machine in their range. But these machines are in the higher price bracket and are intended for use on computer networks only. The Nefax 545 costs £2,495, for example.

Lower-priced all-in-one machines will come with the ratification of a new international standard for a PC to fax machine interface. The international standards body, the ITU (International Telecommunications Union), has been drawing up a standard interface in collaboration with the fax industry. In March, the Telecommunications Terminals study group, which is responsible for producing the new standard, issued a consultation paper. It is expected that the standard will attain full approval later this year.

Once the standard is in place, manufacturers will have the opportunity to source parts for the interface at lower cost. And fax software companies will be able to design software that will work on any machine. In most cases, this software is likely to be designed by specialist companies, which work closely with the manufacturers. Oki and NEC are both working with UK-based Windcraft International, which produces a package called LaserFax.

Efforts were in place by the manufacturers themselves to design a global standard software package in tandem with software giant Microsoft. Known as Microsoft at Work, this software had been intended to provide a Windows-style interface for fax machines and other office equipment. However, according to Mr Lester Davis, chairman of the British Facsimile Consultative Committee, this project has stalled.

"To make a fax machine work like that you have to put a Windows processor inside. But Windows is exhaustive in its data processing requirements. When trying to put it in a fax machine, you have to go from a simple few

hits' processor, to something like a 386," he explained. Apart from a few demonstration machines, no fax machines running Microsoft at Work have so far been made, according to Mr Davis.

One of the benefits that users could hope from the new software is that it will be better designed than many existing packages. PC fax software has to date been designed by small, technically-oriented software companies, with low market awareness. Typically, the packages are either not very robust or they introduce technical issues that the user will have problems in dealing with.

Further fax developments focus on security and speed. The ITU study group is also considering a secure transmission standard whereby an encryption system could be included inside fax machines. The encryption would ensure that the fax could not be read by anyone other than the intended recipient.

Today, if anyone wants to send secure faxes, they have to buy a dedicated scrambler box, at a cost of between £1,000 and £1,800. The box can only communicate across a direct link to another box. That would take the total cost to set up the secure transmission to more than £2,000.

According to Mr Davis, once the standard is in place, manufacturers will be able to include secure transmission capability in a machine without putting up the price too much: "We anticipate that it could be used by businesses at a fractional increase on a £500 machine at a point that they would not squirm at paying," said Mr Davis.

Fax machines incorporating the secure transmission standard are not expected before 1997. However, some manufacturers such as Oki do have fax machines with a non-standard encryption under development. These machines could cost £2,000 or more and are intended for specialist markets, such as defence, where secure transmission is important.

Higher-speed fax machines, however, will be available much sooner. The latest ones can operate at 28.8kilobits a second, for which an international standard has recently been approved. Higher-speed machines reduce the cost of transmission because the documents get through more quickly, and businesses such as law firms, banks and insurance companies which make very high volume transmissions will notice the difference.

However, another new range of very high speed machines which operate on ISDN lines at 64kilobits a second, have been put on hold by the manufacturers. According to Mr Davis, it was expected that these would have been shown at the Cebit Hannover Fair in March, but none were. He blames a lack of understanding among customers of the benefit of higher speeds, which means that the manufacturers have a more difficult job in selling them.

Monica Horton

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terms of investment in the production of telecoms equipment, having committed some \$300m by the end of 1994. The US company has indicated it will have invested \$2bn by the year 2000 in plants manufacturing pagers, cellular phones and semi-conductors.

AT&T, Ericsson, Northern Telecom, Alcatel, Siemens, NEC, GPT, Fujitsu and Nokia, to name some of the more prominent players, are all involved. AT&T, after a slow start, is investing \$150m in eight joint ventures producing such items as optic-fibre cables and switching systems.

Apart from extending its phone system as a matter of urgency, China has also embarked on the development of its own superhighway to provide facilities for high-speed data transmission. China has dubbed this scheme the "Three Goldens" project - Golden Bridge, Golden Customs and Golden Card.

Among immediate priorities is the upgrading of China's customs system and also provision of links for data, voice and video servicing an ever-widening circle of users in the private and public sectors. China is also establishing facilities for an explosion in credit card use.

Jitong Communications, the corporate arm of the Ministry of Electronics Industries, like China Unicom with the telephone network, is providing an alternative to the state monopoly in the development and delivery of data services.

TELECOMMUNICATIONS IN BUSINESS 10

Mobile telephony: Joia Shillingford monitors developments

Next big market will be in data

The business market for mobile phones is maturing, yet mobiles are not as ubiquitous as they seem. Cellnet's figures show that although 81 per cent of large companies in the UK have mobiles, only 18 per cent of staff use them. And mobile phones are not fully established in small professional businesses, such as firms of architects.

The next step is for mobiles to progress from being just a mobile version of fixed phones, into a properly converged product. This is already starting to happen.

Cellnet's Personal Assistant (PA) makes use of both fixed and wireless networks. Each user is given a single phone number and the PA software knows when they are most likely to be in the office or car, or at home.

When a caller rings the number, PA tries the most obvious phone (eg the office) and, if there is no reply, automatically tries the next most likely location (eg the mobile phone). PA has not been released yet; a trial of 500 users is under way.

Mercury One-2-One has a product which directs some of the calls that would usually go to a small company switchboard to mobiles. What happens is that when a caller phones the switchboard number, the call is automatically routed to one of a group of mobile phones.

The next time it rings, it goes to another of the mobiles and so on. This means that a small firm of architects, for example, whose staff are out a lot of the time, does not have to pay for a dedicated receptionist.

A number of follow-me services have also been introduced by fixed network operators such as Mercury and BT. These can switch calls from a fixed to a mobile number.

But the idea of universal personal telephony - where you are given a single number when you are born and retain it until you die - is still some way off, according to Bryan Van Dussen, a senior analyst at the Yankee Group Europe.

The obstacles are as much commercial as technological. "Although the idea appeals to mobile operators, it could

make mobiles appear to be little more than an extension of the fixed network," says Mr Van Dussen. "And then people might expect to pay less."

In the short term, what interests mobile operators is how to get people to spend more on mobile services. One way is to offer mobile data.

"Mobile data will be the next big mobile market," says Hubert Tardieu, head of telecoms at software and services company Sema. "It is likely to be even bigger than the market for mobile voice." This is partly because there are a large number of potential applications for the technology.

Two types of mobile data can be transmitted over the current generation of digital mobile networks such as GSM (Global System for Mobile) and variants such as PCN (Personal Communications Network). One is the Short Message Service (SMS), which is rather like alphanumeric paging and allows messages of up to 160 characters to be transmitted. This forms part of the GSM standard.

Data can also be transmitted from a portable PC as, say, electronic mail or faxes, via GSM. All the user needs is an interface card slotted into the PC. This has a cable which links the card to a suitable GSM phone (such as Nokia's) and allows data to be transmitted via the wireless network into the fixed one.

Digital networks are better for data transmission than cellular networks because speeds are higher and data is less likely to be corrupted.

Mobile operators providing data services include Vodafone (in the UK), Deutsche Telekom and Mannesmann (in Germany) and Telia in Sweden. SMS has been a big success in South Africa where it is used for fleet management (helping to locate and issue new instructions to truck drivers), but the technology is most commonly used to notify users of new voice messages. Hutchinson's Orange PCN network plans to introduce mobile data at the end of June.

Voice messages, left by callers when the mobile they are calling is switched off, are usually free but generate extra calls. Kim Fennell, managing director of Octel Communications Europe, which provides the voice messaging system used by Mercury's One-2-One network, says that using voice mail adds at least 20 per cent to a network operators' revenues.

In addition, voice mail can be used to provide information services. Visitors to South Africa for the Rugby World Cup can dial voice mail numbers on the Vodacom mobile network to find out about hotels and restaurants.

Swedish telecoms operator

Telia plans to offer a hybrid GSM-DECT service. This would allow users to make calls from an Ericsson handset inside their offices using DECT (the Digital European Cordless Telecommunications Standard), but switch to GSM when they leave the building. If the tests, using dual-mode handsets, are successful, it will launch a service next year.

Most of the mobile data and enhanced services are being developed for digital mobile networks (either GSM or PCN). This will help to encourage business users currently using old analogue networks to

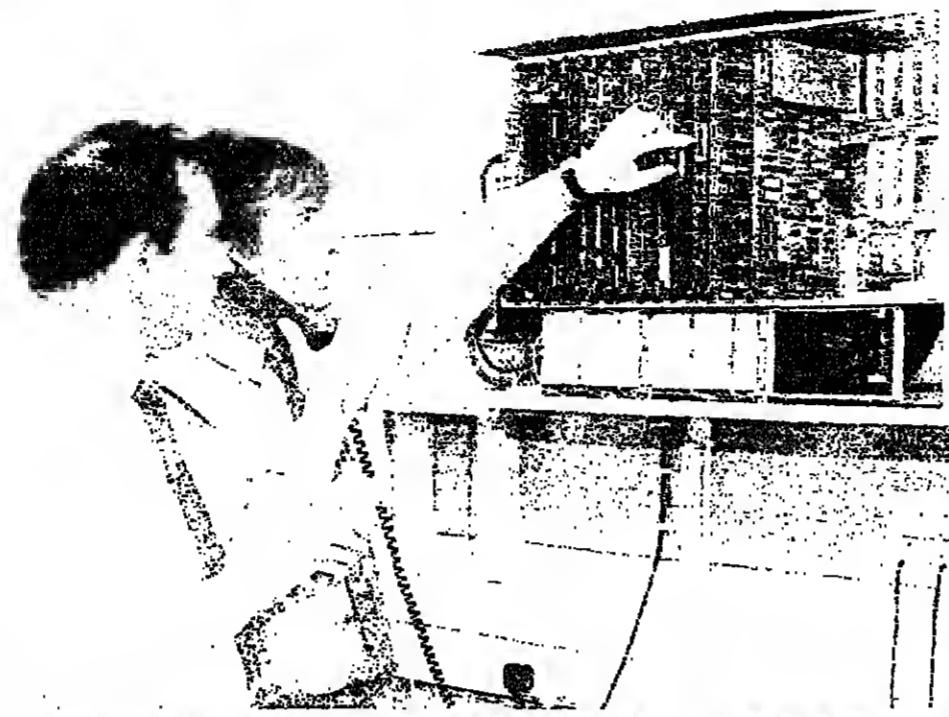
mobile operators Vodafone and Cellnet have both come up with packages to encourage them to switch. This is partly because their analogue networks are almost up to full capacity.

In the long term, analogue networks will probably be used by consumers rather than business users, then phased out.

As the business market for mobiles has matured, the consumer market has exploded. And in the consumer market, mobile phone use has had slightly more impact on the use of fixed telecoms. Consumers have made such extensive use of Mercury One-2-One's PersonalCall tariff - offering free calls at evenings and weekends - that it has increased the monthly subscription charge from £12.50 to £15.00.

But one day the difference between mobile and fixed telephony could be invisible. Users will simply own a phone that connects to whatever service is cheapest and most convenient at the time.

Joia Shillingford is Associate Editor of the Financial Times newsletter Business Computing Brief



Technical support engineers at GPT Communication Systems maintain fixed and cordless exchanges



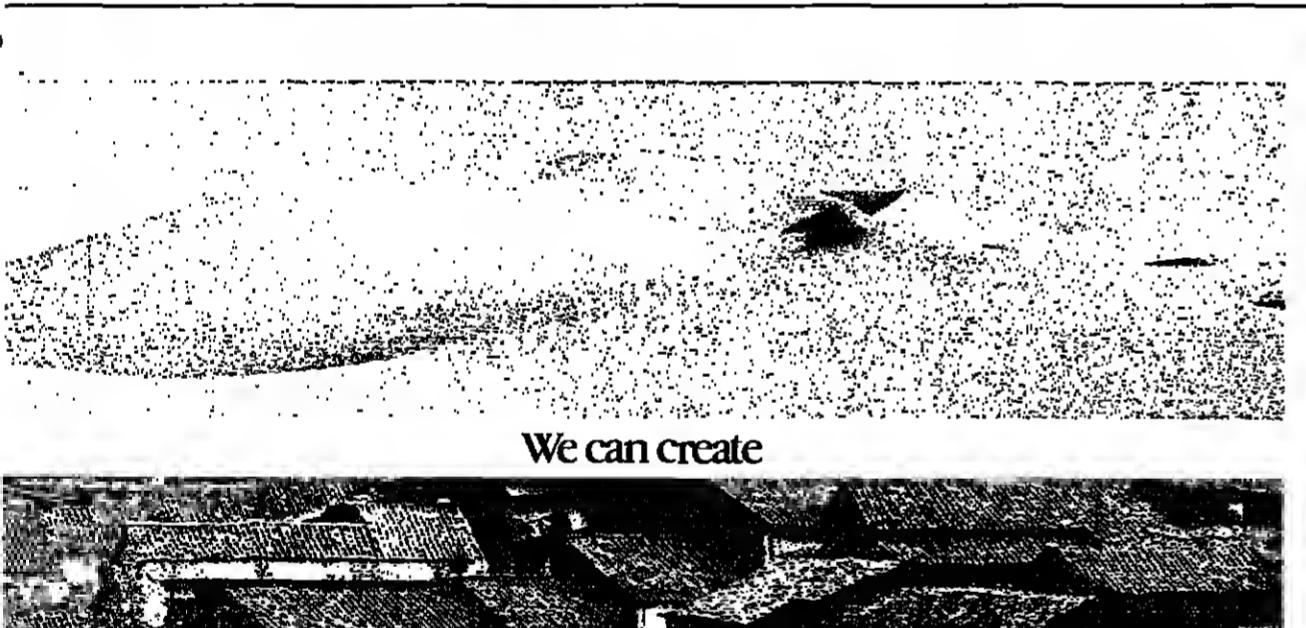
Nokia Orange mobile phone: what interests mobile operators is how to get people to spend more on services



GPT offers two-way messaging-paging with in-built acknowledgements

UK cellular telephone subscribers					
Operator	System	Launch	Subscribers May 1985	Subscribers May 1994	Yearly growth %
Cellnet	TACS-900	Jan 1985	1,752,900	1,057,359	65.78
Cellnet	GSM	Jan 1994	41,000	n/a	n/a
Vodafone	TACS-900	Jan 1985	1,885,450	1,202,378	40.18
Vodafone	GSM	Jul 1992	194,750	26,622	631.54
Mercury One-2-One	DCS 1800	Sep 1993	275,000	64,000	227.38
Orange	DCS 1800	Apr 1994	157,000	n/a	n/a

Source: Mobile Communications



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TELECOMMUNICATIONS IN BUSINESS 13

ISDN has finally caught on in Britain, reports Richard Handford

Fresh applications emerge

1995 is proving to be the year when two previously unsuccessful data technologies came into their own: the integrated services digital network (ISDN) and the transmission of data over wireless networks.

The two technologies appear to have found solutions to the woes which had previously left them in obscurity. The emergence of new applications is helping both ISDN and mobile data to finally strike it rich with customers.

Of the two types of ISDN service offered in the UK - basic rate or ISDN2 offered only by British Telecommunications, and primary rate or ISDN30 offered by both BT and rival Mercury - it is the former that is attracting attention for its new data applications. ISDN2 is used mainly to carry voice traffic.

Over the past two years, ISDN2 has moved away from being purely a back-up service for a customer's private circuit. Two years ago, 55 per cent of ISDN lines were only used in times of exceptional demand when excess data could overflow onto them. Now the situation has changed as customers choose ISDN for applications such as file transfer, the interconnection of computer local area networks (Lans) and access of remotely situated Lans. These applications now account for nearly 50 per cent of all ISDN lines and the fall-back option accounts for only 14 per cent of lines.

The new-found popularity of ISDN has benefits for BT since the newer

applications are likely to generate higher call revenues.

BT likes to talk about the growth in ISDN2 connections, pointing out they grew by 147 per cent in the financial year 1994-95. However, it should be remembered the original base was so low any growth looks impressive. BT itself does not reveal the number of ISDN2 connections but industry opinion puts the figure at about 55,000 at the end of 1994.

The UK lags far behind other European countries in the ISDN stakes. At the end of last year France had 250,000 basic rate connections.

Germany has 240,000 and Spain 230,000. In the rest of Europe there are less than 100,000 basic rate connections.

There are essentially three approaches to ISDN. The first involves placing one terminal on each user's desk and linking them via a centralised system. This solution is much less expensive than either low single-

terminal or multi-terminal systems. The second approach is to use a centralised system with multiple terminals connected to a single computer.

The holy grail is to connect the millions of lap-tops in Europe to a mobile data network.

UK's four specialist operators seem largely to have searched for niche markets such as organisations with employees working out in the field.

Now some in the industry see the opportunity to reach a wider audience. "The holy grail is to connect the millions of lap-tops around Europe to a mobile data network," says Martin Garner of the Ovum consultancy. "It's a far bigger market than that for traffic wardens and policemen."

Mr Garner believes the evolution of technology and new approaches to the way the service is offered will open up a huge potential market among travelling executives. The means for serving this market is likely to be the GSM digital cellular networks now used by millions

of mobile phone customers across Europe. The network has the capability to carry data as well as voice services.

Operators of GSM networks want their customers to connect their phones to a modem and laptop to send data. Such a service would boost the call revenues for the network operators. The technology to facilitate this is now available.

Last year, leading telecoms manufacturers including Ericsson and Nokia began to make commercially available the necessary modems, and the software package Microsoft Windows 95, to be launched this summer, will put a heavy emphasis on its mobile data capabilities.

In the UK, cellular operators Cellnet and Vodafone already offer data services over their GSM networks. Orange, one of the UK's two Personal Communications Network (PCN) operators, is also thought to be interested.

The UK has seen the emergence of service providers in the mobile data market with BT's entry earlier this year to sell a service over Cellnet's GSM network. BT, which owns a 50 per cent stake in Cellnet, will offer the service with US computer manufacturer Apple.

The role of service providers, who do not actually own a network but use their marketing skills to attract customers, has been judged crucial in the growth of the UK's cellular industry and might likewise invigorate the mobile data market.

superhighway speeds, today's pricing models make a line so expensive that even the largest corporations cannot afford them.

BT is getting around the issue with SMDPs by putting it in a different class of service - it is tariffed as a systems licence service which means that BT does not have to link it to existing line prices. The service tariff is at a flat rate, irrespective of the distance between the two sites to be connected.

But Mr Hughes fears that irrespective of service availability or tariff drops, most businesses are a long way from being able to take advantage of the superhighway. "The number of organisations that are yet thinking about how they might exploit the benefits of the superhighway are few and far between. And there are even fewer that can conceptualise the benefits."

Other companies are looking at the much higher speed lines offered by the UK's new telecoms operators. Yorkshire-based Torch Telecom says it is talking to financial institutions within its Yorkshire-North Humber region about providing a managed telecommunications facility at 155 megabits a second. The facility would be used to improve communications to high street branches, especially where they are using client-server, lan-based software applications.

Torch Telecom has already installed a 34 megabit a second link for the Leeds General Infirmary and St James's hospital. It is used by trainee surgeons who watch keyhole surgery operations taking place in an operating theatre on the other side of town. They can converse with the surgeon using a video conferencing unit.

However, before such facilities become available on a national or global basis, the cost of the lines has to come down. Traditional pricing of telephone lines is done by distance and by speed. But, at the

UK still leads the field

A couple of years ago the leading industrialist Sir John Harvey-Jones criticised his senior business colleagues for failing to take advantage of electronic data interchange (EDI).

Today, he would probably find that not much has changed. Only between 10,000 and 20,000 UK companies have adopted electronic, or paperless, trading - yet the UK is still ahead of most European countries and in some fields also ahead of the US. Even among the UK companies which have adopted EDI, many still make very limited use of it and some still do extensive and avoidable rekeying of data.

The take-up varies greatly between industry sectors - the retail, health-care and electronics industries are among the leaders, government generally is a laggard - but overall progress has not been as rapid as proponents of the technology expected a decade ago.

They now hope that a project from the research firm Frost and Sullivan of a quadrupling of the international market by 2001 will prove accurate.

"There is still much more to do," admits Mr John Jenkins, director of corporate affairs for GE Information Services which runs Tradenet, the UK's largest EDI network, and other international EDI services.

The rate of adoption is slow and is disappointing," says Mr Gary Lynch, chief executive of the UK EDI Association (Edia).

Mr Jenkins says there is no important technical barrier, but senior managers are reluctant to see EDI as a business issue which they need to tackle. "Boards of directors still see it as a technical issue for their information technology departments, not for themselves," he says.

Mr Lynch thinks that the electronic data interchange is itself a deterrent to many managers, to whom it sounds too technical. However, there are plenty of examples of companies which have prospered by adopting EDI to encourage others to copy them. The most quoted case in the UK is probably that of the Tesco supermarkets

chain, which has revolutionised the way it does business in the past few years. The improvement in the efficiency of its supply chain is generally recognised to be an important component in its success.

But for ever, Tesco there are dozens of other big and small companies which have been unresponsive to the new technology.

Mr Jenkins contends that what EDI in the UK needs now is an articulate advocate. In the US, Vice-President Al Gore has championed the cause of building an information superhighway and thereby greatly increased public awareness worldwide of the potential of the internet.

"We need an Al Gore to help us bring EDI to the top of the

The popularity of Internet gives EDI promoters a new opportunity

management agenda," says Mr Jenkins. "It can make UK plc more competitive. We have a lead, but we must maintain it."

"There is a lack of clear direction from the government side," complains Mr Lynch. "What we want to see is government using it more. This would send a signal to UK industry that it is a better way to trade."

The popularity of the internet gives the promoters of EDI a new opportunity. Mr Lynch says: "I am trying to ride the wave of interest in the internet, to explain to people that EDI and the Internet are both part of electronic commerce."

Perhaps the most contentious issue in the area of electronic trading at the moment is whether the internet is capable of becoming a vehicle for the sort of activity.

Mr Jenkins argues that it is not yet ready, mainly because of the lack of security, but he thinks that it is already playing an important role in promoting understanding of the electronic marketplace and "extending the shelf" space of suppliers."

Among small and medium-sized businesses, EDI is still seen as a mixed blessing. Many managers are afraid of the difficulty of integrating their accounting software with EDI systems. They have had to call on the services of a software house to glue the systems together, and many have felt it was not worth the trouble or the cost. However, some of the top accounts package vendors such as Multisoft and Pegasus have now started to provide an interface from their programs to EDI systems. Other leaders in the field are likely to do the same.

Meanwhile, the Edia has developed a proposed standard application programming interface which should be available to systems developers by the end of the year.

These developments may contribute to making EDI more attractive to the hundreds of thousands of smaller UK companies which have yet to enter the brave new world of electronic commerce.

Profile: the EU-funded Visinet project

Aid to collaboration

tance-independent - irrespective of the location of the two people communicating, the data will get there in the same time.

Given that situation, it

would seem to matter less whether two people working on a project are located in the same building or several hundred miles apart. According to John Moroney, senior consultant with London-based market researchers Ovum, the

information superhighway will facilitate collaborative working on product design and development in a way that had not been possible before.

It will allow businesses to have a common data source across all departments involved in bringing a product to market - marketing, design, production, sales and post-sales, even where those groups are geographically remote.

Visinet indicates the type of benefits which many businesses could obtain if they choose to exploit the new superhighway technologies. The information superhighway will provide transmission speeds that are many times that of even the fastest telephone lines in use today: the average data transmission today is at 64 kilobits a second (also the speed on an ISDN connection). Some companies have lines at 2 megabits a second, and a rare few might have more than that. The superhighway speeds will provide up to 155 megabits a second, and eventually even higher, up to 2 gigabits a second.

In practice, that means that a four-page multimedia document, including video clips and images, would take only one second to transmit, compared with 41 minutes today. And the technology is dis-

ers directly for the first time, eliminating the middle operator. Thus business gets feedback directly into how its products are being used."

But many businesses will take advantage of the superhighway just to improve what they have today. Most companies now run at least some of their computing systems on local area networks, or Lans, using software that is known as client-server. Client-server software is designed so that any terminal can theoretically access any host or server computer. In practice, people in different parts of the business can get into databases other than those in their department, with the result that business information is shared across the wider organisation.

However, Lans transmit at 10 megabits a second on average. Today, they cannot maintain their transmission speeds on links to external sites, because of the limitations of telephone lines. In other words, where it takes a few seconds to get data from a database in the same building, it takes minutes to retrieve information from one on another site. The information superhighway will solve the problem so that businesses should be able to operate more efficiently across different sites and countries.

Some companies are already beginning to take advantage of the early high-speed lines that are becoming available. BT, for example, claims that about 30 customers are already using its high-speed service known as SMDS (switched multimegabit data service). Transmission is possible at varying speeds up to a maximum of 25 mega-

bits a second and by speed. But, at the

moment, that means that an extension of collaboration working could also include the customers, according to Nick Hughes, head of IT strategy and policy at the PA Consulting Group. "Producers will be able to talk to custom-

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THE DAWN OF A NEW AGE

in the world of

TELECOMMUNICATIONS



Telecommunications made in Germany has long commanded worldwide respect. Many of the innovative achievements paving the way into the information age bear our hallmark.

Deutsche Telekom ranks No. 1 in Europe, No. 3 worldwide and, as a stock corporation, can now play an even more enduring role in shaping the course of progress for the benefit of all.



At the beginning of this year Europe's biggest telecommunications player, Deutsche Telekom, made the move from public sector company to stock corporation.

Deutsche Telekom now a stock corporation.

This move opens up a world of opportunity. It not only allows us greater freedom to forge ahead with technological innovation even faster and more effectively in the service of our customers. It also lets us turn progress born of the information age to the advantage of society as a whole. With telecommunications made in Germany we have provided vital stepping-stones on the road to achieving ground-breaking worldwide standards. And we have helped to make the multimedia information society a reality. It was Deutsche Telekom who spearheaded development of the high-performance digital ISDN network and shared in masterminding GSM, the most efficient mobile communications standard in the world today. We were also the first to use ATM, the transmission system which sets the pace on today's Information Superhighway.

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Joint project faces

in Greek earthquake

Industrial output falls US

French group clinches

to bring forward

and says Palestinian deal

Japan's new car sales rise

car dealers fear trade

bid arms spending will

raise Israeli telecommunications

risks collapse China

risks collapse

Morgan's budget worries

risks collapse

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